

MGT201-FM

Question # 2 of 15 (Start time: 11:44:56 PM) Total Marks: 1

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods)(1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Question # 15 of 15 (Start time: 10:52:13 PM) Total Marks: 1

If a firm has a DOL of 5 at Q units, what would be the effect on sales and EBIT?

Select correct option:

If sales rise by 5%, EBIT will rise by 5%

If sales rise by 1%, EBIT will rise by 1%

If sales rise by 5%, EBIT will fall by 25%

If sales rise by 1%, EBIT will rise by 5%

Question # 5 of 15 (Start time: 10:05:42 PM) Total Marks: 1

Which of the following statistic measures the returns of two risky assets that move together?

Select correct option:

Correlation

Standard deviation

Square root

Variance

Question # 1

Which of the following costs would be considered a fixed cost?

Select correct option:

Raw materials

Depreciation

Bad-debt losses

Production labor

Question # 2

Expected Portfolio Return = _____.

Select correct option:

$$r_P^* = x_A r_A + x_B r_B$$

$$r_P^* = x_A r_A - x_B r_B$$

$$r_P^* = x_A r_A / x_B r_B$$

$$r_P^* = x_A r_A * x_B r_B$$

Question # 3

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Question # 4

Which of the following can be used to calculate the risk of the larger portfolio?

Select correct option:

Standard deviation

EPS approach

Matrix approach

Gordon's Approach

Question # 5

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option: <http://vustudents.ning.com>

Money market

Capital market

Primary market

Secondary market

Question # 6

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Question # 8

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

Question # 9

Which of the following is correct regarding the opportunity cost of capital for a project?

Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

Question # 1 of 10 (Start time: 10:15:03 AM) Total Marks: 1

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Question # 2 of 10 (Start time: 10:15:43 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option: <http://vustudents.ning.com>

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 3 of 10 (Start time: 10:16:18 AM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Question # 4 of 10 (Start time: 10:17:02 AM) Total Marks: 1

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

Question # 5 of 10 (Start time: 10:18:02 AM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 6 of 10 (Start time: 10:18:51 AM) Total Marks: 1

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

Question # 8 of 10 (Start time: 10:20:54 AM) Total Marks: 1

Which of the following formula relates beta of the stock to the standard deviation?

Select correct option:

Covariance of stock with market * variance of the market

Covariance of stock with market / variance of the market

Variance of the market / Covariance of stock with market

Slope of the regression line

Question # 9 of 10 (Start time: 10:21:39 AM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden
Adequacy capacity
Fixed-charge burden

What is the easiest method to diversify away firm-specific risks?
Select correct option:

To buy stocks with a beta of 1.0
To build a portfolio with 5-10 individual stocks
To purchase the shares of a mutual fund
To purchase stocks that plot above the security market line

Question # 1 of 10

Which of the following costs would be considered a fixed cost?
Select correct option:

Raw materials
Depreciation
Bad-debt losses
Production labor

Question # 2 of 10

Expected Portfolio Return = _____.
Select correct option:

$$r_P^* = x_A r_A + x_B r_B$$

$$r_P^* = x_A r_A - x_B r_B$$

$$r_P^* = x_A r_A / x_B r_B$$

$$r_P^* = x_A r_A * x_B r_B$$

Question # 3 of 10

Why markets and market returns fluctuate?
Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Question # 4 of 10

Which of the following can be used to calculate the risk of the larger portfolio?

Select correct option:

Standard deviation

EPS approach

Matrix approach

Gordon's Approach

Question # 5 of 10

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option: <http://vustudents.ning.com>

Money market

Capital market

Primary market

Secondary market

Question # 6 of 10

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Question # 8 of 10

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations? Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

Question # 9 of 10

Which of the following is correct regarding the opportunity cost of capital for a project? Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

1. type of risk is avoidable through proper diversification.

portfolio risk

systematic risk

unsystematic risk

total risk

2. A statistical measure of the degree to which two variables (e.g., securities' returns) move together.

coefficient of variation

variance

covariance

certainty equivalent

3. An "aggressive" common stock would have a "beta"

equal to zero.

greater than one.

equal to one.

less than one.

4. A line that describes the relationship between an individual security's returns and returns on the market portfolio.

characteristic line

security market line

capital market line

beta

5. According to the capital-asset pricing model (CAPM), a security's expected (required) return is equal to the risk-free rate plus a premium

equal to the security's beta.

based on the unsystematic risk of the security.

based on the total risk of the security.

based on the systematic risk of the security.

6. The risk-free security has a beta equal to, while the market portfolio's beta is equal to .

one; more than one.

one; less than one.

zero; one.

less than zero; more than zero.

7. Carrie has a "certainty equivalent" to a risky gamble's expected value that is less than the gamble's expected value. Carrie shows

risk aversion.

risk preference.

risk indifference.

a strange outlook on life.

8. Beta is the slope of

the security market line.

the capital market line.

a characteristic line.

the CAPM.

9. A measure of "risk per unit of expected return."

standard deviation

coefficient of variation

correlation coefficient

beta

10. The greater the beta, the _____ of the security involved.

greater the unavoidable risk

greater the avoidable risk

less the unavoidable risk

less the avoidable risk

11. Plaid Pants, Inc. common stock has a beta of 0.90, while Acme Dynamite Company common stock has a beta of 1.80. The expected return on the market is 10 percent, and the risk-free rate is 6 percent. According to the capital-asset pricing model (CAPM) and making use of the information above, the required return on Plaid Pants' common stock should be _____, and the required return on Acme's common stock should be _____.

3.6 percent; 7.2 percent

9.6 percent; 13.2 percent

9.0 percent; 18.0 percent

14.0 percent; 23.0 percent

12. Espinosa Coffee & Trading, Inc.'s common stock measured beta is calculated to be 0.75. The market beta is, of course, 1.00 and the beta of the industry of which the

company is a part is 1.10. If Merrill Lynch were to calculate an "adjusted beta" for Espinosa's common stock, that adjusted beta would most likely be

less than 0.75

more than 0.75, but less than 1.10

equal to 1.10

equal to 0.95 {i.e., $(1/3) \times (0.75 + 1.00 + 1.10)$ }

Question # 1 of 10 (Start time: 06:51:11 PM) Total Marks: 1

Total portfolio risk is a combination of:

Select correct option:

Systematic risk plus non-diversifiable risk

Avoidable risk plus diversifiable risk

Systematic risk plus unavoidable risk

Systematic risk plus diversifiable risk

Question # 2 of 10 (Start time: 06:52:39 PM) Total Marks: 1

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Question # 3 of 10 (Start time: 06:53:57 PM) Total Marks: 1

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Question # 4 of 10 (Start time: 06:55:09 PM) Total Marks: 1
An annuity due is always worth _____ a comparable annuity.
Select correct option: <http://vustudents.ning.com>

- Less than
- More than**
- Equal to
- Can not be found from the given information

Question # 5 of 10 (Start time: 06:56:21 PM) Total Marks: 1
Calculate the break-even point for sales revenues given the following information. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates that variable costs will be Rs.1 for every Rs.5 in sales.
Select correct option:

- Rs.1, 250,000**
- Rs.1, 000,000
- Rs.250, 000
- Rs.200, 000

Question # 6 of 10 (Start time: 06:57:49 PM) Total Marks: 1
If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?
Select correct option:

- An increase
- A decrease**
- No change
- Incomplete information

Question # 7 of 10 (Start time: 06:59:08 PM) Total Marks: 1
Which of the following formulas represents a correct calculation of the degree of operating leverage?
Select correct option:

- $(Q - QBE)/Q$
- $(EBIT) / (EBIT - FC)$
- $[Q(P-V) + FC] / [Q(P-V)]$
- $Q(P-V) / [Q(P-V) - FC]$**

Question # 8 of 10 (Start time: 07:00:36 PM) Total Marks: 1

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 9 of 10 (Start time: 07:02:01 PM) Total Marks: 1

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Question # 10 of 10 (Start time: 07:03:25 PM) Total Marks: 1

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question # 1 of 10 (Start time: 07:18:32 PM) Total Marks: 1

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Question # 2 of 10 (Start time: 07:19:54 PM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 3 of 10 (Start time: 07:21:02 PM) Total Marks: 1

What is the expected return of a zero-beta security?

Select correct option:

The risk-free rate

Zero rate of return

A negative rate of return

The market rate of return

Question # 4 of 10 (Start time: 07:22:15 PM) Total Marks: 1

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Question # 5 of 10 (Start time: 07:22:54 PM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

Question # 6 of 10 (Start time: 07:23:14 PM) Total Marks: 1

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 7 of 10 (Start time: 07:24:41 PM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 8 of 10 (Start time: 07:25:51 PM) Total Marks: 1

If the probability is written on Y-axis and the rate of return is mentioned on the X-axis,

Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

Select correct option:

Indirect relationship

Inverse relationship

Direct relationship

No relationship

Question # 10 of 10 (Start time: 07:28:23 PM) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 1 of 10 (Start time: 07:32:00 PM) Total Marks: 1

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment
Profitability index
Net present value
Pay back period

Question # 2 of 10 (Start time: 07:32:37 PM) Total Marks: 1

If stock is a part of totally diversified portfolio then its company risk must be equal to:
Select correct option:

0

0.5

1

-1

Question # 3 of 10 (Start time: 07:34:01 PM) Total Marks: 1

What is yield to maturity on a bond?

Select correct option: <http://vustudents.ning.com>

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 4 of 10 (Start time: 07:34:47 PM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 5 of 10 (Start time: 07:35:59 PM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden
Adequacy capacity
Fixed-charge burden

Question # 6 of 10 (Start time: 07:37:32 PM) Total Marks: 1

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

Rs.105,000

Rs.1,500,000
Rs.3975,000
Rs.1,050

Question # 7 of 10 (Start time: 07:39:00 PM) Total Marks: 1

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0
1.5

Question # 8 of 10 (Start time: 07:39:54 PM) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment

Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 9 of 10 (Start time: 07:40:38 PM) Total Marks: 1

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An

increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

Question # 10 of 10 (Start time: 07:42:12 PM) Total Marks: 1

Which of the following is correct, if a firm has a required rate of return equal to the ROE?

Select correct option:

The firm can increase market price and P/E by retaining more earnings.

The firm can increase market price and P/E by increasing the growth rate.

The amount of earnings retained by the firm does not affect market price or the P/E.

None of the given options

Question # 1 of 10 (Start time: 08:27:20 PM) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.

Select correct option:

Parachute graph

Capital market line

Security market line

All of the given options

Question # 2 of 10 (Start time: 08:28:39 PM) Total Marks: 1

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

Question # 3 of 10 (Start time: 08:29:27 PM) Total Marks: 1

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 4 of 10 (Start time: 08:30:05 PM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - QBE)/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

Question # 5 of 10 (Start time: 08:31:26 PM) Total Marks: 1

Which of the following is as EBIT?

Select correct option:

Funds provided by operations

Earnings before taxes

Net income

Operating profit

Question # 6 of 10 (Start time: 08:32:27 PM) Total Marks: 1

Total portfolio risk is a combination of:

Select correct option:

Systematic risk plus non-diversifiable risk

Avoidable risk plus diversifiable risk

Systematic risk plus unavoidable risk

Systematic risk plus diversifiable risk

Question # 7 of 10 (Start time: 08:33:44 PM) Total Marks: 1

In which of the following approach you need to bring all the projects to the same length in time?

Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

Question # 8 of 10 (Start time: 08:34:44 PM) Total Marks: 1

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option: <http://vustudents.ning.com>

Income

Capital loss

Capital gain

Operating income

Question # 9 of 10 (Start time: 08:35:25 PM) Total Marks: 1

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Question # 10 of 10 (Start time: 08:36:30 PM) Total Marks: 1

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture
Bond
Bond trustee

Question # 1 of 10 (Start time: 11:08:17 PM) Total Marks: 1

Which of the following factors might affect stock returns?

Select correct option:

Business cycle
Interest rate fluctuations
Inflation rates

All of the above

Question # 2 of 10 (Start time: 11:09:10 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost
Non-cash item

Question # 3 of 10 (Start time: 11:10:24 PM) Total Marks: 1

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

Select correct option:

Life span of the project

Validity of the project

Cost of the capital

Return on asset

Question # 4 of 10 (Start time: 11:10:57 PM) Total Marks: 1

Which of the following is correct, if a firm has a required rate of return equal to the ROE?

Select correct option:

The firm can increase market price and P/E by retaining more earnings.

The firm can increase market price and P/E by increasing the growth rate.

The amount of earnings retained by the firm does not affect market price or the P/E.

None of the given options

Question # 5 of 10 (Start time: 11:11:40 PM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 6 of 10 (Start time: 11:12:21 PM) Total Marks: 1

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

Select correct option:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question # 7 of 10 (Start time: 11:12:54 PM) Total Marks: 1

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 8 of 10 (Start time: 11:13:38 PM) Total Marks: 1

Which groups of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Question # 9 of 10 (Start time: 11:13:58 PM) Total Marks: 1

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option: <http://vustudents.ning.com>

Book value per share

Liquidation value per share

Market value per share

None of the above

Question # 10 of 10 (Start time: 11:14:16 PM) Total Marks: 1

Where the efficient stock combination of risk and return in efficient market should lie?

Select correct option:

On the SML

Below the SML

Above the SML

It may lie anywhere for efficient combination

Question # 1 of 15 (Start time: 12:09:58 AM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 15 (Start time: 12:11:10 AM) Total Marks: 1

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

Question # 3 of 15 (Start time: 12:11:47 AM) Total Marks: 1

What is the easiest method to diversify away firm-specific risks?

Select correct option:

To buy stocks with a beta of 1.0

To build a portfolio with 5-10 individual stocks

To purchase the shares of a mutual fund

To purchase stocks that plot above the security market line

Question # 4 of 15 (Start time: 12:12:23 AM) Total Marks: 1

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Question # 5 of 15 (Start time: 12:13:02 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 6 of 15 (Start time: 12:14:15 AM) Total Marks: 1

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

Question # 7 of 15 (Start time: 12:15:05 AM) Total Marks: 1

Which of the following is correct regarding the opportunity cost of capital for a project?

Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

Question # 8 of 15 (Start time: 12:15:46 AM) Total Marks: 1

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Question # 9 of 15 (Start time: 12:16:51 AM) Total Marks: 1

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

Question # 10 of 15 (Start time: 12:17:16 AM) Total Marks: 1

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Question # 11 of 15 (Start time: 12:17:57 AM) Total Marks: 1

The current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

Question # 12 of 15 (Start time: 12:18:40 AM) Total Marks: 1

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

Question # 13 of 15 (Start time: 12:19:17 AM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$$(Q - QBE)/Q$$

$$(EBIT) / (EBIT - FC)$$

$$[Q(P-V) + FC] / [Q(P-V)]$$

$$Q(P-V) / [Q(P-V) - FC]$$

Question # 14 of 15 (Start time: 12:19:31 AM) Total Marks: 1

What are the Direct claim securities?

Select correct option: <http://vustudents.ning.com>

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Question # 15 of 15 (Start time: 12:20:16 AM) Total Marks: 1

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

Question # 2 of 15 (Start time: 12:31:43 AM) Total Marks: 1

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Question # 3 of 15 (Start time: 12:32:17 AM) Total Marks: 1

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Question # 4 of 15 (Start time: 12:32:41 AM) Total Marks: 1

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Question # 5 of 15 (Start time: 12:33:07 AM) Total Marks: 1

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

Question # 6 of 15 (Start time: 12:33:38 AM) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

Question # 7 of 15 (Start time: 12:34:11 AM) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question # 8 of 15 (Start time: 12:34:40 AM) Total Marks: 1

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

Question # 9 of 15 (Start time: 12:35:13 AM) Total Marks: 1

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

Question # 10 of 15 (Start time: 12:35:38 AM) Total Marks: 1

Total portfolio risk is _____.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

Question # 11 of 15 (Start time: 12:36:02 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option: <http://vustudents.ning.com>

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 12 of 15 (Start time: 12:36:28 AM) Total Marks: 1

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 13 of 15 (Start time: 12:36:56 AM) Total Marks: 1

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Question # 14 of 15 (Start time: 12:37:22 AM) Total Marks: 1

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

Select correct option:

The price should increase by the amount of the dividend

The price should decrease by the amount of the dividend

The price should decrease by one-half the amount of the dividend
The price should remain constant

Question # 15 of 15 (Start time: 12:38:07 AM) Total Marks: 1

Which of the following would express the negative net worth of a firm?
Select correct option:

Experiencing a business failure
In legal bankruptcy
Experiencing technical insolvency
Experiencing accounting insolvency

Question # 1 of 15 (Start time: 12:43:28 AM) Total Marks: 1

Which of the following is NOT the type of Hybrid organizations?
Select correct option:

S-Type Corporation
Limited Liability Partnership
Sole Proprietorship
Professional Corporation

Question # 2 of 15 (Start time: 12:44:16 AM) Total Marks: 1

Which of the following costs would be considered a fixed cost?
Select correct option:

Raw materials
Depreciation
Bad-debt losses
Production labor

Question # 3 of 15 (Start time: 12:44:39 AM) Total Marks: 1

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?
Select correct option:

Indenture

Debenture
Bond
Bond trustee

Question # 4 of 15 (Start time: 12:45:03 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?
Select correct option:

Fixed costs
Variable costs
Debt financing
Common equity financing

Question # 5 of 15 (Start time: 12:45:30 AM) Total Marks: 1

Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?
Select correct option:

Involvement of interest rate while making calculations
Do not account for time value of money
Tricky and complicated methods
All of the given options

Question # 6 of 15 (Start time: 12:45:59 AM) Total Marks: 1

Which of the following statements regarding covariance is correct?
Select correct option:

Covariance always lies in the range -1 to +1
Covariance, because it involves a squared value, must always be a positive number (or zero)
Low covariances among returns for different securities leads to high portfolio risk
Covariances can take on positive, negative, or zero values

Question # 7 of 15 (Start time: 12:46:26 AM) Total Marks: 1

How dividend yield on a stock is similar to the current yield on a bond?
Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Question # 8 of 15 (Start time: 12:47:14 AM) Total Marks: 1

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

Question # 9 of 15 (Start time: 12:47:38 AM) Total Marks: 1

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Question # 10 of 15 (Start time: 12:49:05 AM) Total Marks: 1

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

Question # 11 of 15 (Start time: 12:49:41 AM) Total Marks: 1

An implicit cost of adding debt to the capital structure is that it:
Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Question # 12 of 15 (Start time: 12:50:17 AM) Total Marks: 1

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Question # 13 of 15 (Start time: 12:50:41 AM) Total Marks: 1

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 14 of 15 (Start time: 12:51:15 AM) Total Marks: 1

Which of the following is not a recognized approach for determining the cost of equity?

Select correct option:

Dividend discount model approach

Before-tax cost of preferred stock plus risk premium approach

Capital-asset pricing model approach
Before-tax cost of debt plus risk premium approach

Question # 15 of 15 (Start time: 12:52:03 AM) Total Marks: 1

Which of the following is the characteristic of a well diversified portfolio?
Select correct option:

- Its market risk is negligible
- Its unsystematic risk is negligible**
- Its systematic risk is negligible
- All of the given options

Question # 1 of 15 (Start time: 12:55:10 AM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "operating" activity?
Select correct option:

- Cash outflow to the government for taxes**
- Cash outflow to shareholders as dividends
- Cash inflow to the firm from selling new common equity shares
- Cash outflow to purchase bonds issued by another company

Question # 2 of 15 (Start time: 12:55:39 AM) Total Marks: 1

Which of the following is an example of restructuring the firm?
Select correct option:

- Dividends are increased from Rs.1 to Rs.2 per share
- A new investment increases the firm's business risk
- New equity is issued and the proceeds repay debt**
- A new Board of Directors is elected to the firm

Question # 3 of 15 (Start time: 12:56:20 AM) Total Marks: 1

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.
Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

Question # 4 of 15 (Start time: 12:56:54 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 5 of 15 (Start time: 12:57:23 AM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 6 of 15 (Start time: 12:57:53 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option: <http://vustudents.ning.com>

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 7 of 15 (Start time: 12:58:21 AM) Total Marks: 1

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Question # 8 of 15 (Start time: 12:58:48 AM) Total Marks: 1

Which of the following is NOT the type of Hybrid organizations?

Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

Question # 9 of 15 (Start time: 12:59:12 AM) Total Marks: 1

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

Question # 10 of 15 (Start time: 12:59:37 AM) Total Marks: 1

Which of the following is/are the characteristic(s) of Perpetuity?

Select correct option:

It is an annuity

It has no definite end

It is a constant stream of identical cash flows

All of the given options

Question # 11 of 15 (Start time: 01:00:09 AM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 12 of 15 (Start time: 01:00:45 AM) Total Marks: 1

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Question # 13 of 15 (Start time: 01:01:11 AM) Total Marks: 1

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Question # 14 of 15 (Start time: 01:01:42 AM) Total Marks: 1

Which of the following formula relates beta of the stock to the standard deviation?

Select correct option:

Covariance of stock with market * variance of the market

Covariance of stock with market / variance of the market

Variance of the market / Covariance of stock with market

Slope of the regression line

Question # 15 of 15 (Start time: 01:02:44 AM) Total Marks: 1

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Question # 1 of 15 (Start time: 01:08:11 AM) Total Marks: 1

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 2 of 15 (Start time: 01:08:30 AM) Total Marks: 1

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 3 of 15 (Start time: 01:09:06 AM) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment

Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 4 of 15 (Start time: 01:10:30 AM) Total Marks: 1

Security market line gives the relationship between _____ and _____.

Select correct option:

Market risk and the required return

Systematic risk and the required return

Non-diversified risk and the required return

All of the given options

Question # 5 of 15 (Start time: 01:11:00 AM) Total Marks: 1

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

Increase

Decrease

Either increase or decrease

None of the given options

Question # 6 of 15 (Start time: 01:11:40 AM) Total Marks: 1

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical of earnings growth than that of the average firm

Question # 7 of 15 (Start time: 01:12:59 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 8 of 15 (Start time: 01:13:54 AM) Total Marks: 1

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Question # 9 of 15 (Start time: 01:14:29 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option: <http://vustudents.ning.com>

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 10 of 15 (Start time: 01:14:58 AM) Total Marks: 1

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

Question # 11 of 15 (Start time: 01:15:20 AM) Total Marks: 1

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Question # 12 of 15 (Start time: 01:15:39 AM) Total Marks: 1

Which of the following costs would be considered a fixed cost?

Select correct option:

Raw materials

Depreciation

Bad-debt losses

Production labor

Question # 13 of 15 (Start time: 01:16:04 AM) Total Marks: 1

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____.

Select correct option:

Both bonds will increase in value, but bond A will increase more than bond B

Both bonds will increase in value, but bond B will increase more than bond A

Both bonds will decrease in value, but bond A will decrease more than bond B

Both bonds will decrease in value, but bond B will decrease more than bond A

Question # 14 of 15 (Start time: 01:16:51 AM) Total Marks: 1

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

Question # 15 of 15 (Start time: 01:18:02 AM) Total Marks: 1

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Question # 1 of 15 (Start time: 01:20:44 AM) Total Marks: 1

Which of the following is as EBIT?

Select correct option:

Funds provided by operations

Earnings before taxes

Net income

Operating profit

Question # 2 of 15 (Start time: 01:21:10 AM) Total Marks: 1

What is the difference between economic profit and accounting profit?

Select correct option:

Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt

Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period

Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows

All of the given options are correct

Question # 3 of 15 (Start time: 01:21:52 AM) Total Marks: 1

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

Select correct option:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question # 4 of 15 (Start time: 01:22:32 AM) Total Marks: 1

Which of the following refers to bringing the future cash flow to the present time?

Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Question # 5 of 15 (Start time: 01:23:06 AM) Total Marks: 1

What is the traditional approach towards the valuation of a company?

Select correct option:

The cost of capital is independent of the capital structure of the firm

The firm maintains constant risk regardless of the type of financing employed

There exists no optimal capital structure

That management can increase the total value of the firm through the judicious use of financial leverage

Question # 6 of 15 (Start time: 01:24:32 AM) Total Marks: 1

Security market line gives the relationship between ____ and ____.

Select correct option:

Market risk and the required return

Systematic risk and the required return

Non-diversified risk and the required return

All of the given options

Question # 7 of 15 (Start time: 01:25:02 AM) Total Marks: 1

Nominal Interest Rate is also known as:

Select correct option: <http://vustudents.ning.com>

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Question # 8 of 15 (Start time: 01:25:39 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 9 of 15 (Start time: 01:26:10 AM) Total Marks: 1

What is the expected return of a zero-beta security?

Select correct option:

The risk-free rate

Zero rate of return

A negative rate of return

The market rate of return

Question # 10 of 15 (Start time: 01:27:19 AM) Total Marks: 1

What is yield to maturity on a bond?

Select correct option:

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 11 of 15 (Start time: 01:27:48 AM) Total Marks: 1

What is the present value of Rs.8,000 to be paid at the end of three years if interest rate

is 11%?

Select correct option:

Rs.6,015

Rs.4,872

Rs.6,725

Rs.1,842

Question # 12 of 15 (Start time: 01:28:08 AM) Total Marks: 1

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 13 of 15 (Start time: 01:28:43 AM) Total Marks: 1

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Question # 14 of 15 (Start time: 01:29:35 AM) Total Marks: 1

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Question # 15 of 15 (Start time: 01:29:53 AM) Total Marks: 1

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 1 of 15 (Start time: 01:33:00 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 2 of 15 (Start time: 01:33:23 AM) Total Marks: 1

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 3 of 15 (Start time: 01:33:49 AM) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

Select correct option:

Probability distribution

The expected return

The standard deviation
Coefficient of variation

Question # 4 of 15 (Start time: 01:34:17 AM) Total Marks: 1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Question # 5 of 15 (Start time: 01:34:43 AM) Total Marks: 1

Which of the following is the expected cash dividend that is normally paid to shareholders?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 6 of 15 (Start time: 01:35:25 AM) Total Marks: 1

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

Debt

Preferred stock

None of the above

Question # 7 of 15 (Start time: 01:35:55 AM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association
Strong Capital Appreciation, a mutual fund
Microsoft Corporation, a software firm
College Credit, a credit union

Question # 8 of 15 (Start time: 01:36:18 AM) Total Marks: 1
Which of the following stipulate a relationship between expected return and risk?
Select correct option: <http://vustudents.ning.com>

APT stipulates
CAPM stipulates
Both CAPM and APT stipulate
Neither CAPM nor APT stipulate

Question # 9 of 15 (Start time: 01:36:35 AM) Total Marks: 1
Which of the following is related to the use Lower financial leverage?
Select correct option:

Fixed costs
Variable costs
Debt financing
Common equity financing

Question # 10 of 15 (Start time: 01:36:59 AM) Total Marks: 1
How "Shareholder wealth" is represented in a firm?
Select correct option:

The number of people employed in the firm
The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock
The amount of salary paid to its employees

Question # 11 of 15 (Start time: 01:37:30 AM) Total Marks: 1
The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?
Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each
There will be four times as many shares outstanding, and they will sell for Rs.160.00 each
There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each
There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Question # 12 of 15 (Start time: 01:38:17 AM) Total Marks: 1

Which of the following refers to bringing the future cash flow to the present time?
Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Question # 13 of 15 (Start time: 01:38:41 AM) Total Marks: 1

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?
Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Question # 14 of 15 (Start time: 01:39:17 AM) Total Marks: 1

How the beta of the stock could be calculated?
Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Question # 15 of 15 (Start time: 01:39:42 AM) Total Marks: 1

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost

Sunk cost

Floatation cost

Question # 1 of 15 (Start time: 01:41:55 AM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 2 of 15 (Start time: 01:42:44 AM) Total Marks: 1

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

Select correct option:

The price should increase by the amount of the dividend

The price should decrease by the amount of the dividend

The price should decrease by one-half the amount of the dividend

The price should remain constant

Question # 3 of 15 (Start time: 01:43:30 AM) Total Marks: 1

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

Select correct option:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question # 4 of 15 (Start time: 01:44:11 AM) Total Marks: 1

Which of the following stipulate a relationship between expected return and risk?
Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

Question # 5 of 15 (Start time: 01:44:36 AM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?
Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

Question # 6 of 15 (Start time: 01:45:03 AM) Total Marks: 1

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

Question # 7 of 15 (Start time: 01:45:28 AM) Total Marks: 1

Which of the following is related to the use of higher operating leverage?
Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 8 of 15 (Start time: 01:46:01 AM) Total Marks: 1

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Question # 9 of 15 (Start time: 01:46:27 AM) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 10 of 15 (Start time: 01:47:18 AM) Total Marks: 1

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 11 of 15 (Start time: 01:47:53 AM) Total Marks: 1

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

Question # 12 of 15 (Start time: 01:48:19 AM) Total Marks: 1

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following? <http://vustudents.ning.com>

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Question # 13 of 15 (Start time: 01:48:54 AM) Total Marks: 1

Which of the following would express the negative net worth of a firm?

Select correct option:

Experiencing a business failure

In legal bankruptcy

Experiencing technical insolvency

Experiencing accounting insolvency

Question # 14 of 15 (Start time: 01:49:35 AM) Total Marks: 1

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

Question # 15 of 15 (Start time: 01:50:30 AM) Total Marks: 1

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Question # 1 of 15 (Start time: 01:51:32 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 2 of 15 (Start time: 01:51:59 AM) Total Marks: 1

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Question # 3 of 15 (Start time: 01:52:42 AM) Total Marks: 1 <http://vustudents.ning.com>

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Question # 4 of 15 (Start time: 01:53:46 AM) Total Marks: 1

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

Question # 5 of 15 (Start time: 01:57:15 AM) Total Marks: 1

Security market line gives the relationship between _____ and _____.

Select correct option:

Market risk and the required return

Systematic risk and the required return

Non-diversified risk and the required return

All of the given options

Question # 6 of 15 (Start time: 01:57:52 AM) Total Marks: 1

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated

Negatively correlated

Question # 7 of 15 (Start time: 01:58:38 AM) Total Marks: 1

Which of the following is the general assumption of Percent of Sales Forecasting?

Select correct option:

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

Current Assets usually grow in proportion to Liabilities

Current Assets usually grow in proportion to Sales

Question # 8 of 15 (Start time: 01:59:22 AM) Total Marks: 1

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Question # 9 of 15 (Start time: 01:59:52 AM) Total Marks: 1

Which of the following is not a recognized approach for determining the cost of equity?

Select correct option:

Dividend discount model approach

Before-tax cost of preferred stock plus risk premium approach

Capital-asset pricing model approach

Before-tax cost of debt plus risk premium approach

Question # 10 of 15 (Start time: 02:00:32 AM) Total Marks: 1

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high

Question # 11 of 15 (Start time: 02:01:02 AM) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment
Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 12 of 15 (Start time: 02:01:58 AM) Total Marks: 1

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

Question # 13 of 15 (Start time: 02:02:28 AM) Total Marks: 1

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Question # 14 of 15 (Start time: 02:03:21 AM) Total Marks: 1

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

Accounts that are found on Balance Sheet

All of the given options

Question # 15 of 15 (Start time: 02:03:58 AM) Total Marks: 1

Which of the following is the percentage of interest charged at each compounding time?

Select correct option:

Nominal interest Rate

Effective interest Rate

Annual percentage rate

Periodic interest rate

Question # 7 of 15 (Start time: 02:07:00 AM) Total Marks: 1

Total portfolio risk is a combination of:

Select correct option:

Systematic risk plus non-diversifiable risk

Avoidable risk plus diversifiable risk

Systematic risk plus unavoidable risk

Systematic risk plus diversifiable risk

Question # 8 of 15 (Start time: 02:07:32 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 9 of 15 (Start time: 02:07:56 AM) Total Marks: 1

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 10 of 15 (Start time: 02:08:16 AM) Total Marks: 1

Which of the following is NOT true regarding the capital market?

Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year
Where TFCs and NIT are exchanged and traded
Where overnight lending & borrowing takes place

Question # 11 of 15 (Start time: 02:08:40 AM) Total Marks: 1

Which of the following formula relates beta of the stock to the standard deviation?
Select correct option:

Covariance of stock with market * variance of the market
Covariance of stock with market / variance of the market
Variance of the market / Covariance of stock with market
Slope of the regression line

Question # 12 of 15 (Start time: 02:08:57 AM) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.
Select correct option:

Parachute graph
Capital market line
Security market line
All of the given options

Question # 13 of 15 (Start time: 02:09:28 AM) Total Marks: 1

For most firms, P/E ratios and risk_____.
Select correct option:

Will be directly related
Will have an inverse relationship
Will be unrelated
None of the above.

Question # 14 of 15 (Start time: 02:09:48 AM) Total Marks: 1

What is the expected return of a zero-beta security?
Select correct option:

The risk-free rate

Zero rate of return

A negative rate of return

The market rate of return

Question # 15 of 15 (Start time: 02:10:08 AM) Total Marks: 1

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 1 of 15 (Start time: 04:44:56 AM) Total Marks: 1

Which of the following is NOT The cost of equity?

Select correct option:

The minimum rate that a firm should earn on the equity-financed part of an investment

A return on the equity-financed portion of an investment that, at worst, leaves the market

price of the stock unchanged

By far the most difficult component cost to estimate

Generally lower than the before-tax cost of debt

Question # 2 of 15 (Start time: 04:46:12 AM) Total Marks: 1

Which of the following statements is true?

Select correct option:

The financial risk of a firm decreases when it takes on a risky project

The financial risk of a firm increases when it takes on more equity

The business risk of a firm increases when it takes on a risky project

The business risk of a firm increases when it takes on more debt

Question # 3 of 15 (Start time: 04:47:15 AM) Total Marks: 1

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Question # 4 of 15 (Start time: 04:47:33 AM) Total Marks: 1

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

Question # 5 of 15 (Start time: 04:48:01 AM) Total Marks: 1

Study the time line and accompanying 5-period cash-flow pattern below.

0	1	2	3	4	5	6
Time line	-----	-----	-----	-----	-----	-----
						Rs.10
Cash flows			A	B		

The present value of the 5-period annuity shown above as of Point A is the present value of a 5-period _____, whereas the future value of the same annuity as of Point B is the future value of a 5-period _____.

Select correct option:

Ordinary annuity; ordinary annuity

Ordinary annuity; annuity due

Annuity due; annuity due

Annuity due; ordinary annuity

Question # 6 of 15 (Start time: 04:48:26 AM) Total Marks: 1

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Question # 7 of 15 (Start time: 04:48:42 AM) Total Marks: 1

In which of the following approach you need to bring all the projects to the same length in time?

Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

Question # 8 of 15 (Start time: 04:49:14 AM) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

Question # 9 of 15 (Start time: 04:49:31 AM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Question # 10 of 15 (Start time: 04:49:38 AM) Total Marks: 1

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Question # 11 of 15 (Start time: 04:50:03 AM) Total Marks: 1

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

Question # 12 of 15 (Start time: 04:50:11 AM) Total Marks: 1

Which of the following is NOT true regarding the capital market?

Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year

Where TFCs and NIT are exchanged and traded

Where overnight lending & borrowing takes place

Question # 13 of 15 (Start time: 04:50:20 AM) Total Marks: 1

Which of the following is type a Temporary Account?

Select correct option:

Asset

Liability

Reserves

Revenue

Question # 14 of 15 (Start time: 04:50:38 AM) Total Marks: 1

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 15 of 15 (Start time: 04:50:53 AM) Total Marks: 1

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 1 of 15 (Start time: 04:57:29 AM) Total Marks: 1

Which of the following is NOT the type of Hybrid organizations?

Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

Question # 2 of 15 (Start time: 04:57:36 AM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 3 of 15 (Start time: 04:57:42 AM) Total Marks: 1

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Question # 4 of 15 (Start time: 04:58:00 AM) Total Marks: 1

How the beta of the stock could be calculated?

Select correct option: <http://vustudents.ning.com>

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Question # 5 of 15 (Start time: 04:58:09 AM) Total Marks: 1

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

Question # 6 of 15 (Start time: 04:59:34 AM) Total Marks: 1

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

<http://vustudents.ning.com>

Increase

Decrease

Either increase or decrease

None of the given options

Question # 7 of 15 (Start time: 04:59:53 AM) Total Marks: 1

What is the easiest method to diversify away firm-specific risks?

Select correct option:

To buy stocks with a beta of 1.0

To build a portfolio with 5-10 individual stocks

To purchase the shares of a mutual fund

To purchase stocks that plot above the security market line

Question # 8 of 15 (Start time: 05:00:00 AM) Total Marks: 1

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Question # 9 of 15 (Start time: 05:00:30 AM) Total Marks: 1

Given no change in required returns, the price of a stock whose dividend is constant will_____.

Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Question # 10 of 15 (Start time: 05:01:01 AM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 11 of 15 (Start time: 05:01:17 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 12 of 15 (Start time: 05:01:24 AM) Total Marks: 1

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 13 of 15 (Start time: 05:02:08 AM) Total Marks: 1

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Question # 14 of 15 (Start time: 05:03:01 AM) Total Marks: 1

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 15 of 15 (Start time: 05:04:29 AM) Total Marks: 1

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

Financial accounting

Financial management

Financial engineering

Financial budgeting

Question # 1 of 15 (Start time: 05:23:24 AM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Question # 2 of 15 (Start time: 05:23:47 AM) Total Marks: 1

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?

Select correct option:

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs

Estimate the retained earnings

Question # 3 of 15 (Start time: 05:24:24 AM) Total Marks: 1

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 4 of 15 (Start time: 05:24:32 AM) Total Marks: 1

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

Debt

Preferred stock

None of the above

Question # 5 of 15 (Start time: 05:24:40 AM) Total Marks: 1

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Question # 6 of 15 (Start time: 05:24:47 AM) Total Marks: 1

Which of the following can be used to calculate the risk of the larger portfolio?

Select correct option:

Standard deviation

EPS approach

Matrix approach

Gordon's Approach

Question # 7 of 15 (Start time: 05:25:05 AM) Total Marks: 1

The risk that covers events like unexpected changes in the economy refers to:

Select correct option:

Systematic risk

Unsystematic risk

Total risk

All of the above

Question # 8 of 15 (Start time: 05:25:20 AM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 9 of 15 (Start time: 05:25:27 AM) Total Marks: 1

What is yield to maturity on a bond?

Select correct option:

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 10 of 15 (Start time: 05:25:49 AM) Total Marks: 1

Which of the following is the percentage of interest charged at each compounding time?

Select correct option:

Nominal interest Rate

Effective interest Rate

Annual percentage rate

Periodic interest rate

Question # 11 of 15 (Start time: 05:25:56 AM) Total Marks: 1

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 12 of 15 (Start time: 05:26:03 AM) Total Marks: 1

Which of the following would NOT be the part of the risk if the stock is a single stock investment?

Select correct option:

Company specific risk

Un-diversifiable risk

Diversifiable risk

Random risk

Question # 13 of 15 (Start time: 05:26:20 AM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 14 of 15 (Start time: 05:26:38 AM) Total Marks: 1

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

Question # 15 of 15 (Start time: 05:27:45 AM) Total Marks: 1

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Question # 1 of 15 (Start time: 05:35:30 AM) Total Marks: 1

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

Question # 2 of 15 (Start time: 05:35:48 AM) Total Marks: 1

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 3 of 15 (Start time: 05:36:12 AM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - QBE)/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

Question # 4 of 15 (Start time: 05:36:22 AM) Total Marks: 1

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

Question # 5 of 15 (Start time: 05:36:38 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 6 of 15 (Start time: 05:36:45 AM) Total Marks: 1

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

Question # 7 of 15 (Start time: 05:37:05 AM) Total Marks: 1

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

Question # 8 of 15 (Start time: 05:37:23 AM) Total Marks: 1

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Question # 9 of 15 (Start time: 05:37:43 AM) Total Marks: 1

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Question # 10 of 15 (Start time: 05:38:14 AM) Total Marks: 1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Question # 11 of 15 (Start time: 05:38:21 AM) Total Marks: 1

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Question # 12 of 15 (Start time: 05:38:37 AM) Total Marks: 1

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?

Select correct option:

3.33%

30%

31%

70%

Question # 13 of 15 (Start time: 05:38:57 AM) Total Marks: 1

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Question # 14 of 15 (Start time: 05:39:13 AM) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.

Select correct option:

Parachute graph

Capital market line

Security market line

All of the given options

Question # 15 of 15 (Start time: 05:39:44 AM) Total Marks: 1

All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:

Select correct option:

Balance Sheet

Income Statement

Cash budget

Statement of Retained Earnings

Question # 1 of 15 (Start time: 05:48:12 AM) Total Marks: 1

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 2 of 15 (Start time: 05:48:57 AM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 3 of 15 (Start time: 05:49:14 AM) Total Marks: 1

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares

The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

Question # 4 of 15 (Start time: 05:50:22 AM) Total Marks: 1

Which of the following would NOT be the part of the risk if the stock is a single stock investment?

Select correct option:

<http://vustudents.ning.com>

Company specific risk

Un-diversifiable risk

Diversifiable risk

Random risk

Question # 5 of 15 (Start time: 05:50:40 AM) Total Marks: 1

Which of the following is the risk of investing funds in another country?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 6 of 15 (Start time: 05:51:08 AM) Total Marks: 1

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

Question # 7 of 15 (Start time: 05:51:15 AM) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 8 of 15 (Start time: 05:51:47 AM) Total Marks: 1

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 9 of 15 (Start time: 05:52:04 AM) Total Marks: 1

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Question # 10 of 15 (Start time: 05:52:11 AM) Total Marks: 1

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

Question # 11 of 15 (Start time: 05:52:32 AM) Total Marks: 1

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

Question # 12 of 15 (Start time: 05:53:10 AM) Total Marks: 1

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 13 of 15 (Start time: 05:53:18 AM) Total Marks: 1

In efficient market the stock price depends upon the required return which depends upon _____.

Select correct option:

Market risk

Total risk

Diversified risk

Non- systematic risk

Question # 14 of 15 (Start time: 05:53:53 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 15 of 15 (Start time: 05:54:00 AM) Total Marks: 1

Total portfolio risk is _____.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

Question # 1 of 15 (Start time: 06:02:09 AM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option: <http://vustudents.ning.com>

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Question # 2 of 15 (Start time: 06:02:17 AM) Total Marks: 1

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Question # 3 of 15 (Start time: 06:03:18 AM) Total Marks: 1

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Question # 4 of 15 (Start time: 06:04:36 AM) Total Marks: 1

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 5 of 15 (Start time: 06:05:04 AM) Total Marks: 1

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Question # 6 of 15 (Start time: 06:05:23 AM) Total Marks: 1

Calculate the break-even point for sales revenues given the following information. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates that variable costs will be Rs.1 for every Rs.5 in sales.

Select correct option:

Rs.1, 250,000

Rs.1, 000,000

Rs.250, 000

Rs.200, 000

Question # 7 of 15 (Start time: 06:05:39 AM) Total Marks: 1

In efficient market the stock price depends upon the required return which depends upon _____.

Select correct option:

Market risk

Total risk

Diversified risk

Non- systematic risk

Question # 8 of 15 (Start time: 06:05:55 AM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 9 of 15 (Start time: 06:06:02 AM) Total Marks: 1

Which of the following is correct regarding the opportunity cost of capital for a project?

Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

Question # 10 of 15 (Start time: 06:06:58 AM) Total Marks: 1

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicity of earnings growth than that of the average firm

Question # 11 of 15 (Start time: 06:07:19 AM) Total Marks: 1

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical

None of the given options

Question # 12 of 15 (Start time: 06:07:39 AM) Total Marks: 1

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

Question # 13 of 15 (Start time: 06:08:09 AM) Total Marks: 1

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

Question # 14 of 15 (Start time: 06:08:29 AM) Total Marks: 1

What are the Direct claim securities?

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Question # 15 of 15 (Start time: 06:08:47 AM) Total Marks: 1

An investment proposal should be judged in whether or not it provides:

Select correct option:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

Question # 1 of 15 (Start time: 06:14:47 AM) Total Marks: 1

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 2 of 15 (Start time: 06:14:54 AM) Total Marks: 1

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 3 of 15 (Start time: 06:15:13 AM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 4 of 15 (Start time: 06:15:20 AM) Total Marks: 1

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Question # 5 of 15 (Start time: 06:15:27 AM) Total Marks: 1

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Question # 6 of 15 (Start time: 06:16:32 AM) Total Marks: 1

An arbitrage opportunity exists if an investor can construct a _____ investment portfolio that will yield a sure profit.

Select correct option:

Positive

Negative

Zero

All of the above

Question # 7 of 15 (Start time: 06:16:47 AM) Total Marks: 1

Which of the following risk can be diversified away?

Select correct option:

Systematic risk

Beta

Firm specific risk

Market risk

Question # 8 of 15 (Start time: 06:17:05 AM) Total Marks: 1

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

Question # 9 of 15 (Start time: 06:17:25 AM) Total Marks: 1

Which of the following statements is true?

Select correct option:

The financial risk of a firm decreases when it takes on a risky project

The financial risk of a firm increases when it takes on more equity

The business risk of a firm increases when it takes on a risky project

The business risk of a firm increases when it takes on more debt

Question # 10 of 15 (Start time: 06:17:47 AM) Total Marks: 1

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

Question # 11 of 15 (Start time: 06:18:04 AM) Total Marks: 1

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 12 of 15 (Start time: 06:18:20 AM) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.

Select correct option:

Parachute graph

Capital market line

Security market line

All of the given options

Question # 13 of 15 (Start time: 06:18:27 AM) Total Marks: 1

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 14 of 15 (Start time: 06:18:35 AM) Total Marks: 1

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 15 of 15 (Start time: 06:19:03 AM) Total Marks: 1

Which of the following is NOT true regarding the capital market?

Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year

Where TFCs and NIT are exchanged and traded

Where overnight lending & borrowing takes place

Question # 1 of 15 (Start time: 06:29:41 AM) Total Marks: 1

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE = \underline{\hspace{2cm}}$.

Select correct option:

Net profit margin $\times$ Total asset turnover $\times$ Equity multiplier

Total asset turnover $\times$ Gross profit margin $\times$ Debt ratio

Total asset turnover $\times$ Net profit margin

Total asset turnover $\times$ Gross profit margin $\times$ Equity multiplier

Question # 2 of 15 (Start time: 06:30:01 AM) Total Marks: 1

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

Select correct option:

Operational; financial management

Financial management; accounting

Accounting; financial management

Financial management; operations

Question # 3 of 15 (Start time: 06:30:21 AM) Total Marks: 1

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

Financial accounting

Financial management

Financial engineering

Financial budgeting

Question # 4 of 15 (Start time: 06:30:29 AM) Total Marks: 1

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Question # 5 of 15 (Start time: 06:31:23 AM) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment
Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 6 of 15 (Start time: 06:31:50 AM) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 7 of 15 (Start time: 06:31:57 AM) Total Marks: 1

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 8 of 15 (Start time: 06:32:07 AM) Total Marks: 1

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

Select correct option:

Par value

Market value

Intrinsic value

Face value

Question # 9 of 15 (Start time: 06:32:33 AM) Total Marks: 1

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 10 of 15 (Start time: 06:32:44 AM) Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Question # 11 of 15 (Start time: 06:33:41 AM) Total Marks: 1

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Question # 12 of 15 (Start time: 06:34:03 AM) Total Marks: 1

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

Question # 13 of 15 (Start time: 06:34:23 AM) Total Marks: 1

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Question # 14 of 15 (Start time: 06:34:50 AM) Total Marks: 1

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

Question # 15 of 15 (Start time: 06:35:11 AM) Total Marks: 1

What is the present value of Rs.1,000 to be paid at the end of 5 years if the correct risk adjusted interest rate is 8%?

Select correct option:

Rs.714

Rs.1,462

Rs.322.69

Rs.401.98

Question # 1 of 15 (Start time: 06:41:50 AM) Total Marks: 1

Which of the following is the expected cash dividend that is normally paid to shareholders?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 2 of 15 (Start time: 06:41:58 AM) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 3 of 15 (Start time: 06:42:06 AM) Total Marks: 1

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

Rs.105,000

Rs.1,500,000

Rs.3975,000

Rs. 350,000

Question # 4 of 15 (Start time: 06:42:12 AM) Total Marks: 1

What is the difference between economic profit and accounting profit?

Select correct option:

Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt

Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period

Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows

All of the given options are correct

Question # 5 of 15 (Start time: 06:42:20 AM) Total Marks: 1

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Question # 6 of 15 (Start time: 06:42:26 AM) Total Marks: 1

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 7 of 15 (Start time: 06:42:42 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 8 of 15 (Start time: 06:42:48 AM) Total Marks: 1

If we invest in many securities which are _____to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated

Negatively correlated

Question # 9 of 15 (Start time: 06:43:46 AM) Total Marks: 1

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Question # 10 of 15 (Start time: 06:44:04 AM) Total Marks: 1

An arbitrage opportunity exists if an investor can construct a _____ investment portfolio that will yield a sure profit.

Select correct option:

Positive

Negative

Zero

All of the above

Question # 11 of 15 (Start time: 06:44:14 AM) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 12 of 15 (Start time: 06:44:22 AM) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 13 of 15 (Start time: 06:44:32 AM) Total Marks: 1

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

Financial accounting

Financial management

Financial engineering

Financial budgeting

Question # 14 of 15 (Start time: 06:44:41 AM) Total Marks: 1

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE = \underline{\hspace{2cm}}$.

Select correct option:

Net profit margin $\times$ Total asset turnover $\times$ Equity multiplier

Total asset turnover $\times$ Gross profit margin $\times$ Debt ratio

Total asset turnover $\times$ Net profit margin

Total asset turnover $\times$ Gross profit margin $\times$ Equity multiplier

Question # 15 of 15 (Start time: 06:44:49 AM) Total Marks: 1

Where the efficient stock combination of risk and return in efficient market should lie?

Select correct option:

On the SML

Below the SML

Above the SML

It may lie anywhere for efficient combination

Question # 1 of 15 (Start time: 06:56:08 AM) Total Marks: 1

Which of the following is NOT the type of Hybrid organizations?

Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

Question # 2 of 15 (Start time: 06:56:18 AM) Total Marks: 1

Which of the following is correct, if a firm has a required rate of return equal to the ROE?

Select correct option:

The firm can increase market price and P/E by retaining more earnings.

The firm can increase market price and P/E by increasing the growth rate.

The amount of earnings retained by the firm does not affect market price or the P/E.

None of the given options

Question # 3 of 15 (Start time: 06:57:13 AM) Total Marks: 1

In which of the following approach you need to bring all the projects to the same length in time?

Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

Question # 4 of 15 (Start time: 06:57:21 AM) Total Marks: 1

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

Question # 5 of 15 (Start time: 06:57:32 AM) Total Marks: 1

All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:

Select correct option:

Balance Sheet

Income Statement

Cash budget

Statement of Retained Earnings

Question # 6 of 15 (Start time: 06:57:40 AM) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market

Real asset market

Question # 7 of 15 (Start time: 06:58:35 AM) Total Marks: 1

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Question # 8 of 15 (Start time: 06:58:58 AM) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 9 of 15 (Start time: 06:59:06 AM) Total Marks: 1

What is the traditional approach towards the valuation of a company?

Select correct option:

The cost of capital is independent of the capital structure of the firm

The firm maintains constant risk regardless of the type of financing employed

There exists no optimal capital structure

That management can increase the total value of the firm through the judicious use of financial leverage

Question # 10 of 15 (Start time: 06:59:27 AM) Total Marks: 1

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Question # 11 of 15 (Start time: 06:59:47 AM) Total Marks: 1

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes

M&M Proposition II without taxes

M&M Proposition II with taxes

Question # 12 of 15 (Start time: 07:00:24 AM) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

Question # 13 of 15 (Start time: 07:00:33 AM) Total Marks: 1

If the probability is written on Y-axis and the rate of return is mentioned on the X-axis, Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

Select correct option:

Indirect relationship

Inverse relationship

Direct relationship

No relationship

Question # 14 of 15 (Start time: 07:00:50 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 15 of 15 (Start time: 07:00:59 AM) Total Marks: 1

What would be the result when there is an increase in the number of shares outstanding by reducing the par value of stock?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 1 of 15 (Start time: 07:11:14 AM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 15 (Start time: 07:11:35 AM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

Question # 3 of 15 (Start time: 07:11:42 AM) Total Marks: 1

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 4 of 15 (Start time: 07:12:01 AM) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 5 of 15 (Start time: 07:12:10 AM) Total Marks: 1

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option: <http://vustudents.ning.com>

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

Question # 6 of 15 (Start time: 07:12:33 AM) Total Marks: 1

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 7 of 15 (Start time: 07:13:35 AM) Total Marks: 1

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

Question # 8 of 15 (Start time: 07:13:42 AM) Total Marks: 1

All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:

Select correct option:

Balance Sheet

Income Statement

Cash budget

Statement of Retained Earnings

Question # 9 of 15 (Start time: 07:13:50 AM) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question # 10 of 15 (Start time: 07:14:10 AM) Total Marks: 1

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 11 of 15 (Start time: 07:14:17 AM) Total Marks: 1

Which of the following formula relates beta of the stock to the standard deviation?

Select correct option:

Covariance of stock with market * variance of the market

Covariance of stock with market / variance of the market

Variance of the market / Covariance of stock with market

Slope of the regression line

Question # 12 of 15 (Start time: 07:14:25 AM) Total Marks: 1

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Question # 13 of 15 (Start time: 07:14:35 AM) Total Marks: 1

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

Select correct option:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question # 14 of 15 (Start time: 07:15:02 AM) Total Marks: 1

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Question # 15 of 15 (Start time: 07:15:24 AM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Question # 1 of 15 (Start time: 07:20:57 AM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 2 of 15 (Start time: 07:21:24 AM) Total Marks: 1

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

Question # 3 of 15 (Start time: 07:21:44 AM) Total Marks: 1

What is the expected return of a zero-beta security?

Select correct option:

The risk-free rate

Zero rate of return

A negative rate of return

The market rate of return

Question # 4 of 15 (Start time: 07:21:52 AM) Total Marks: 1

What is the difference between economic profit and accounting profit?

Select correct option:

Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt

Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period

Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows

All of the given options are correct

Question # 5 of 15 (Start time: 07:21:59 AM) Total Marks: 1

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Question # 6 of 15 (Start time: 07:22:08 AM) Total Marks: 1

Which of the following is the expected cash dividend that is normally paid to shareholders?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 7 of 15 (Start time: 07:22:17 AM) Total Marks: 1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Question # 8 of 15 (Start time: 07:22:25 AM) Total Marks: 1

Where the efficient stock combination of risk and return in efficient market should lie?

Select correct option:

On the SML

Below the SML

Above the SML

It may lie anywhere for efficient combination

Question # 9 of 15 (Start time: 07:22:34 AM) Total Marks: 1

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Question # 10 of 15 (Start time: 07:22:58 AM) Total Marks: 1

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Question # 11 of 15 (Start time: 07:23:18 AM) Total Marks: 1

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Question # 12 of 15 (Start time: 07:23:26 AM) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$$(Q - QBE)/Q$$

$$(EBIT) / (EBIT - FC)$$

$$[Q(P-V) + FC] / [Q(P-V)]$$

$$Q(P-V) / [Q(P-V) - FC]$$

Question # 13 of 15 (Start time: 07:23:34 AM) Total Marks: 1

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Question # 14 of 15 (Start time: 07:23:52 AM) Total Marks: 1

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

Question # 15 of 15 (Start time: 07:24:47 AM) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 1 of 15 (Start time: 07:34:43 AM) Total Marks: 1

Which of the following is the main objective of 'Economics'?

Select correct option:

Profit maximization

Maximization of shareholders wealth

Collection of accurate, systematic, and timely financial data

All of the given options

Question # 2 of 15 (Start time: 07:34:51 AM) Total Marks: 1

Market risk is measured in terms of the _____ of the market portfolio or index.

Select correct option:

Variance

Covariance

Standard deviation

Correlation coefficient

Question # 3 of 15 (Start time: 07:35:10 AM) Total Marks: 1

Why we need Capital rationing? (

Select correct option:

Because, there are not enough positive NPV projects

Because, companies do not always have access to all of the funds they could make use of

Because, managers find it difficult to decide how to fund projects

Because, banks require very high returns on projects

Question # 4 of 15 (Start time: 07:35:34 AM) Total Marks: 1

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Question # 5 of 15 (Start time: 07:35:56 AM) Total Marks: 1

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

Question # 6 of 15 (Start time: 07:36:05 AM) Total Marks: 1

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Question # 7 of 15 (Start time: 07:36:12 AM) Total Marks: 1

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?

Select correct option:

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs

Estimate the retained earnings

Question # 8 of 15 (Start time: 07:36:21 AM) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 9 of 15 (Start time: 07:36:29 AM) Total Marks: 1

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Question # 10 of 15 (Start time: 07:36:36 AM) Total Marks: 1

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Question # 11 of 15 (Start time: 07:36:58 AM) Total Marks: 1

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

Question # 12 of 15 (Start time: 07:37:05 AM) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 13 of 15 (Start time: 07:37:12 AM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 14 of 15 (Start time: 07:37:19 AM) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 15 of 15 (Start time: 07:37:43 AM) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 12 of 15 (Start time: 02:08:57 AM) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.

Select correct option: <http://vustudents.ning.com>

Parachute graph

Capital market line

Security market line

All of the given options

Question # 15 of 15 (Start time: 02:03:58 AM) Total Marks: 1

Which of the following is the percentage of interest charged at each compounding time?

Select correct option:

Nominal interest Rate

Effective interest Rate

Annual percentage rate

Periodic interest rate

Question # 5 of 15 (Start time: 01:34:43 AM) Total Marks: 1

Which of the following is the expected cash dividend that is normally paid to shareholders?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 11 of 15 (Start time: 01:27:48 AM) Total Marks: 1

What is the present value of Rs.8,000 to be paid at the end of three years if interest rate is 11%?

Select correct option:

Rs.6,015

Rs.4,872

Rs.6,725

Rs.1,842

Question # 9 of 15 (Start time: 01:26:10 AM) Total Marks: 1

What is the expected return of a zero-beta security?

Select correct option:

The risk-free rate

Zero rate of return

A negative rate of return

The market rate of return

Question # 6 of 15 (Start time: 01:24:32 AM) Total Marks: 1

Security market line gives the relationship between _____ and _____.

Select correct option:

Market risk and the required return

Systematic risk and the required return

Non-diversified risk and the required return

All of the given options

Question # 3 of 15 (Start time: 01:21:52 AM) Total Marks: 1

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

Select correct option:

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question # 2 of 15 (Start time: 01:21:10 AM) Total Marks: 1

What is the difference between economic profit and accounting profit?

Select correct option:

Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt

Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period

Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows

All of the given options are correct

Question # 3 of 15 (Start time: 01:09:06 AM) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 14 of 15 (Start time: 12:51:15 AM) Total Marks: 1

Which of the following is not a recognized approach for determining the cost of equity?

Select correct option:

Dividend discount model approach

Before-tax cost of preferred stock plus risk premium approach

Capital-asset pricing model approach

Before-tax cost of debt plus risk premium approach

Question # 2 of 15 (Start time: 12:44:16 AM) Total Marks: 1

Which of the following costs would be considered a fixed cost?

Select correct option:

Raw materials

Depreciation

Bad-debt losses

Production labor

Question # 15 of 15 (Start time: 12:38:07 AM) Total Marks: 1

Which of the following would express the negative net worth of a firm?

Select correct option:

Experiencing a business failure

In legal bankruptcy

Experiencing technical insolvency

Experiencing accounting insolvency

Question # 14 of 15 (Start time: 12:37:22 AM) Total Marks: 1

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

Select correct option:

The price should increase by the amount of the dividend

The price should decrease by the amount of the dividend

The price should decrease by one-half the amount of the dividend

The price should remain constant

Question # 7 of 15 (Start time: 12:15:05 AM) Total Marks: 1

Which of the following is correct regarding the opportunity cost of capital for a project?

Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

Question # 3 of 15 (Start time: 12:11:47 AM) Total Marks: 1

What is the easiest method to diversify away firm-specific risks?

Select correct option:

To buy stocks with a beta of 1.0

To build a portfolio with 5-10 individual stocks

To purchase the shares of a mutual fund

To purchase stocks that plot above the security market line

MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 3)**Time: 60 min****Marks: 44****Question No: 1 (Marks: 1) - Please choose one**

Which of the following is equal to the average tax rate?

- ▶ Total tax liability divided by taxable income
- ▶ Rate that will be paid on the next dollar of taxable income
- ▶ Median marginal tax rate
- ▶ Percentage increase in taxable income from the previous period

Question No: 2 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 3 (Marks: 1) - Please choose one

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1, 500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

▶ Rs.700 Rs.500 Rs.300

▶ Rs.300 Rs.500 Rs.700

▶ Rs.500 Rs.500 Rs.500

▶ Any of the above, since they each sum to Rs.1,500

Question No: 4 (Marks: 1) - Please choose one

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.

▶ Present value

▶ Simple interest

▶ Future value

▶ Compound interest

Question No: 5 (Marks: 1) - Please choose one

_____ You are going to invest Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?

▶ Rs.14,491

▶ Rs.14,518

► Incomplete information

► Rs.14,460

Question No: 6 (Marks: 1) - Please choose one

_____ An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

► Rs.109.39

► Rs.147.36

► Rs.154.73

► Rs.99.74

Question No: 7 (Marks: 1) - Please choose one

_____ All of the following influence capital budgeting cash flows **EXCEPT** _____.

► Choice of depreciation method for tax purposes

► Economic length of the project

► Projected sales (revenues) for the project

► Sunk costs of the project

Question No: 8 (Marks: 1) - Please choose one

_____ The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

► Include sunk costs, but ignore opportunity costs

▶ Include opportunity costs, but ignore sunk costs

▶ Ignore both opportunity costs and sunk costs

▶ Include both opportunity and sunk costs

Question No: 9 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

▶ Cash flow from financing activity

▶ Cash flow from operating activity

▶ Cash flow from investing activity

▶ All of the given options

Question No: 10 (Marks: 1) - Please choose one

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

▶ Cash budgeting

▶ Capital budgeting

▶ Capital rationing

▶ Capital expenditure

Question No: 11 (Marks: 1) - Please choose one

Who is responsible for the decisions relating capital budgeting and capital rationing?

- ▶ Chief executive officer
- ▶ Junior management
- ▶ Division heads
- ▶ All of the given option

Question No: 12 (Marks: 1) - Please choose one

When coupon bonds are issued, they are typically sold at which of the following value?

- ▶ Below par
- ▶ Above par value
- ▶ At or near par value
- ▶ At a value unrelated to par

Question No: 13 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of hybrid equity?

- ▶ Convertible bonds
- ▶ Convertible debenture
- ▶ Common shares
- ▶ Preferred shares

Question No: 14 (Marks: 1) - Please choose one

_____ The value of dividend is derived from which of the following?

- ▶ Cash flow streams
- ▶ Capital gain /loss
- ▶ Difference between buying & selling price
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- ▶ The firm can increase market price and P/E by retaining more earnings
- ▶ The firm can increase market price and P/E by increasing the growth rate
- ▶ The amount of earnings retained by the firm does not affect market price or the P/E
- ▶ None of the given options

Question No: 16 (Marks: 1) - Please choose one

_____ When Investors want high plowback ratios?

- ▶ Whenever $ROE > k$
- ▶ Whenever $k > ROE$
- ▶ Only when they are in low tax brackets
- ▶ Whenever bank interest rates are high

Question No: 17 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is **CORRECT**?

▶ A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

▶ The square root of a portfolio's standard deviation of return equals its variance.

▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 18 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

▶ Systematic risk

▶ Standard deviation

▶ Unsystematic risk

▶ Financial risk

Question No: 19 (Marks: 1) - Please choose one

Diversification can reduce risk by spreading your money across many different _____.

▶ Investments

▶ Markets

▶ Industries

▶ All of the given options

Question No: 20 (Marks: 1) - Please choose one

<http://vustudents.ning.com>

Which of the following is **NOT** a major cause of unsystematic risk.

- ▶ New competitors
- ▶ New product management
- ▶ Worldwide inflation
- ▶ Strikes

Question No: 21 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ Sunk cost
- ▶ Opportunity cost
- ▶ Non-cash item

Question No: 22 (Marks: 1) - Please choose one

Under which concept it is said that “do not put all your eggs in one basket”?

- ▶ Risk & return
- ▶ Portfolio diversification
- ▶ Insurance management
- ▶ Time value of money

Question No: 23 (Marks: 1) - Please choose one



_____ All
of the following are the steps involved in financial planning process **EXCEPT**:

- ▶ Assumptions are made about future levels of sales, costs, and interest rates etc.
- ▶ Ratios are projected and analyzed
- ▶ Projected financial statements are developed
- ▶ Comparison with key competitors about the prices to be charged

Question No: 24 (Marks: 1) - Please choose one

_____ Which of the following is NOT the interest rate used for discounting calculation?

- ▶ Benchmark interest rate
- ▶ Effective interest rate
- ▶ Periodic interest rate
- ▶ Nominal interest rate

Question No: 25 (Marks: 1) - Please choose one

_____ Suppose you are going to sale an old asset and its market value is greater than its book value it indicates that:

- ▶ Company is going to have capital gain
- ▶ Company will have to bear capital loss
- ▶ Company is going to earn operating revenue
- ▶ Company has to bear revenue expense

Question No: 26 (Marks: 1) - Please choose one

Which of the following is not a type of problem in capital rationing?

- ▶ Size difference of projects
- ▶ Timing difference of projects
- ▶ Different lives of different projects
- ▶ Different cash flow streams

Question No: 27 (Marks: 1) - Please choose one

_____ In Pakistan which of the following is assigned to bond rating and risk?

- ▶ IMF
- ▶ Moody's
- ▶ Standard & poor
- ▶ PACRA

Question No: 28 (Marks: 1) - Please choose one

Which of the following statement defines the following events i.e Inflation, recession, and high interest rates?

- ▶ Systematic risk factors that can be diversified away
- ▶ Company-specific risk factors that can be diversified away
- ▶ Among the factors that are responsible for market risk
- ▶ Irrelevant except to governmental authorities like the Federal Reserve

Question No: 29 (Marks: 3)

Differentiate the real assets and securities.

Solution:

Real assets are physical property such as Land, Machinery, equipments and Building etc. Where as securities basically, are legal contractual piece of paper.

Kinds of securities:

We have discussed about two types of securities.

Direct claim securities:

Stocks (Shares):

It is defined as equity paper representing ownership, shareholding. Appears on Liabilities side of Balance Sheet

Bonds:

It is a debt paper representing loan or borrowing. These are long term debt instruments.

Question No: 30 (Marks: 3)

A security analyst has estimated the following returns on the stocks of 4 large companies:

	Weightage	Expected Returns
Company A	25%	12%
Company B	25%	11.5%
Company C	25%	10. %
Company D	25%	9.5%

You are required to calculate the expected return on this portfolio.

Solution:

Expected Portfolio Return Calculation:

$$\begin{aligned}
 r_P &= r_A \times A + r_B \times B + r_C \times C + r_D \times D \\
 &= 12\% (25/100) + 11.5\% (25/100) + 10\% (25/100) + 9.5\% (25/100) \\
 &= 3\% + 2.875\% + 2.5 + 2.375 \\
 &= 10.75\%
 \end{aligned}$$

Question No: 31 (Marks: 5)

Why a person should invest in shares? Give reasons.

Solution:

. Capital growth

Over the longer term, shares can produce significant capital gains through increases in share prices. Some companies also issue free or bonus shares to their shareholders as another way of passing on company profits or increases in their net worth.

Diversifying your investments

in order to diversify your investment portfolio, you will probably have part of your money in the share market. You may buy shares directly or through managed funds or your superannuation.

Easy buying and selling

Compared to other investments like property, shares are very portable. They can be bought and sold quickly, and the brokerage on the transactions is lower than for a property transaction. Unlike selling a property, you can sell part of your share parcels.

Question No: 32 (Marks: 5)

_____ H
Corporation's stock currently sells for Rs.20 a share. The stock just paid a dividend of Rs.2 a share ($D_0 = \text{Rs.}2$). the dividend is expected to grow at a constant rate of 11% a year.

- ⌚ What stock price is expected 1 year from now?
- ⌚ What would be the required rate of return on company's stock?

Data:

$$P_0 = \text{rs } 20$$

$$D_0 = 2.$$

$$g = 11\%$$

$$P_1 = ?$$

$$rs = ?$$

Solution Part A:

$$P_1 = P_0(1 + g)$$

$$P_1 = 20(1.11)$$

$$P_1 = 22.2$$

Solution part B:

$$rs = D_1 / P_0 + g$$

$$rs = (2 * 1.11/20) + 0.11$$

$$rs = (2.22/20) + 0.11$$

$$rs = 0.111 + 0.11$$

$$rs = 0.221 * 100$$

$$rs = 22.1\%$$

MIDTERM EXAMINATION**Spring 2010****MGT201- Financial Management (Session - 6)****Question No: 1 (Marks: 1) - Please choose one**

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ Shareholder; manager
- ▶ Manager; owner
- ▶ Accountant; bondholder
- ▶ Shareholder; bondholder

Question No: 2 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 3 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from an "investing" activity?

- ▶ Cash outflow to the government for taxes
- ▶ Cash outflow to shareholders as dividends
- ▶ Cash outflow to lenders as interest
- ▶ Cash outflow to purchase bonds issued by another company

Question No: 4 (Marks: 1) - Please choose one

_____ All
of the following influence capital budgeting cash flows **EXCEPT** _____.

- ▶ Choice of depreciation method for tax purposes
- ▶ Economic length of the project
- ▶ Projected sales (revenues) for the project
- ▶ Sunk costs of the project

Question No: 5 (Marks: 1) - Please choose one

_____ An
investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return required by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ A return equal to or more than required by investor

Question No: 6 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ Modified internal rate of return
- ▶ Net present value

Question No: 7 (Marks: 1) - Please choose one

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

- ▶ Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date
- ▶ Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity
- ▶ Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity
- ▶ None of the above are correct since a serial bond is identical to a sinking fund bond

Question No: 8 (Marks: 1) - Please choose one

_____ The value of a bond is directly derived from which of the following?

- ▶ Cash flows
- ▶ Coupon receipts
- ▶ Par recovery at maturity
- ▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

- ▶ Market interest rate
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ All of the given options

Question No: 10 (Marks: 1) - Please choose one

_____ If all things equal, when diversification is most effective?

- ▶ Securities' returns are positively correlated
- ▶ Securities' returns are uncorrelated
- ▶ Securities' returns are high
- ▶ Securities' returns are negatively correlated

Question No: 11 (Marks: 1) - Please choose one

_____ You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

- ▶ Will be greater than the intrinsic value of stock B
- ▶ Will be the same as the intrinsic value of stock B
- ▶ Will be less than the intrinsic value of stock B
- ▶ None of the given options

Question No: 12 (Marks: 1) - Please choose one

_____ In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- ▶ Real risk-free rate
- ▶ Risk premium for stocks
- ▶ Return on assets
- ▶ Expected inflation rate

Question No: 13 (Marks: 1) - Please choose one

_____ Which of the following is **NOT** a major cause of systematic risk.

- ▶ A worldwide recession
- ▶ A world war
- ▶ World energy supply

► Company management change

Question No: 14 (Marks: 1) - Please choose one

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

- Sunk cost
- Opportunity cost
- Externalities
- Contingencies

Question No: 15 (Marks: 1) - Please choose one

_____ A
preferred stock will pay a dividend of Rs. 2.75 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

- Rs. 0.275
- Rs. 27.50
- Rs. 31.82
- Rs. 56.25

Question No: 16 (Marks: 1) - Please choose one

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

- Rs.680.58
- Rs.1,462.23
- Rs.322.69

► Rs.401.98

Question No: 17 (Marks: 1) - Please choose one

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

► Rs.25,300

► Rs.34,122

► Rs.14,549

► Rs.11,989

Question No: 18 (Marks: 1) - Please choose one

_____ The objective of _____ is to maximize the shareholder's wealth.

► Financial economics

► Financial management

► Financial accounting

► Financial engineering

Question No: 19 (Marks: 1) - Please choose one

Which of the following accounting equation is accurate?

► Assets +Equity = Liabilities + Expenses

► Assets + Expenses = Liabilities +Expenses + Revenue

► Assets + Liabilities = Equity + Expenses + Revenue

► Assets + Revenue + Liabilities = Equity

Question No: 20 (Marks: 1) - Please choose one

Through which of the following formula desired growth rate can be calculated?

- ▶ Return on equity $\times$ (1- payout ratio)
- ▶ Return on equity / (1- payout ratio)
- ▶ Return on equity + (1+ payout ratio)
- ▶ Return on equity - (1/ payout ratio)

Question No: 21 (Marks: 1) - Please choose one

Which of the following is a type of annuity in which no time span is involved?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

Question No: 22 (Marks: 1) - Please choose one

Which of the following is not a type of problem in capital rationing?

- ▶ Size difference of projects
- ▶ Timing difference of projects
- ▶ Different lives of different projects
- ▶ Different cash flow streams

Question No: 23 (Marks: 1) - Please choose one

Market price of a share will be determined from _____.

- ▶ Supply of share only
- ▶ Demand of share only

- ▶ Price of share of Benchmark Company
- ▶ From demand and supply in the market

Question No: 24 (Marks: 1) - Please choose one

Which of the following is called hybrid equity as it is the combination of both equity and debt factor?

- ▶ Common stocks
- ▶ Preferred stocks
- ▶ Bonds & securities
- ▶ All of the given options

Question No: 25 (Marks: 1) - Please choose one

Which of the following can be used as measure of return?

- ▶ Forecasted selling price
- ▶ Forecasted purchase price
- ▶ Forecasted dividend
- ▶ Forecasted time span of project

Question No: 26 (Marks: 1) - Please choose one

Which of the following formula could be used to calculate expected rate of return $\langle r \rangle$?

- ▶ $P_0 / P_0 \times P_1$
- ▶ $P_1 + P_0 / P_0$
- ▶ $P_1 - P_0 / P_0$
- ▶ $P_0 - P_1 / P_0$

Question No: 27 (Marks: 1) - Please choose one

Finance consists of which of the following area(s)?

- ▶ Money and capital market
- ▶ Investment
- ▶ Financial management
- ▶ All of the given options

Question No: 28 (Marks: 1) - Please choose one

_____ A
proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria, which of the following project is most suitable to accept?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ Project A & B

Question No: 29 (Marks: 3)

_____ **Define interest rate risk and investment risk.**

The Interest Rate Risk for Long Term Bonds ie. For the 10 years is more than the Interest Rate Risk for Short Term Bonds i.e. 1 year bonds; provided the coupon rate for the bonds is similar.

When investor buy a long term bond he is locked in investment for long term period there are more chances of fluctuation in interest rate and the inflation rate. So, the impact of interest rate changes on Long Term bonds is greater. Long Term Bond Prices fluctuate more because their Coupon Rates are fixed or locked for a long time even though Market Interest Rates are fluctuating daily; therefore the price of Long Bonds has to constantly keep adjusting.

Price of the long term bond fluctuates more as compared to the short term bond. Because, you have a long term bond with fix coupon rate but the market interest rate is fluctuating in between the years.

When we talk about the investment this is different from the forecasted and this to represent risk. we need to keep in mind the distinction between Stand Alone Risk (or Single Investment Risk) as oppose to market or Portfolio Risk or collection of investments risk, which is a risk of particular investment compare to other investments you have made. In Portfolio risk we are

interested in overall risk of entire collection of investments that made by the company.

Hence the interest rate risk is to the specific concern while the investment risk is to effect the whole business.

Question No: 30 (Marks: 3)

_____ A stock is expected to pay a dividend of Rs.0.75 at the end of the year. The required rate of return is $k_s = 10.5\%$, and the expected constant growth rate is $g = 6.4\%$. What is the stock's current price?

Data:

$$P_0 = ?$$

$$D_1 = 0.75$$

$$g = 6.4\%$$

$$ROR = 10.5\%$$

Solution:-

$$P_0 = D_1 / (r - g)$$

$$P_0 = 0.75 / (0.105 - 0.064)$$

$$P_0 = 0.75 / 0.041$$

$$P_0 = 18.29$$

Question No: 31 (Marks: 5)

There are some risks (Unique Risk) that we can diversify but some of the risks (Market risks) are not diversifiable. Explain both types of risk.

Question No: 32 (Marks: 5)

Hammad Inc. is considering two alternative, mutually exclusive projects. Both projects require an initial investment of Rs. 10,000 and are typical, average-risk projects for the firm. Project A has an expected life of 2 years with after-tax cash inflow of Rs. 6,000 and Rs. 8,000 at the end of year 1 and 2, respectively.

Project B has an expected life of 4 years with after-tax cash inflow of Rs. 4,000 at the end of each of next 4 years. The firm's cost of capital is 10 percent.

If the projects cannot be repeated, which project will be selected, and what is the net present value?

Solution:

Net Present Value:

Project A: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 6000$

Cash flow in yr 2, $CF_2 = \text{Rs } 8000$

Discount rate, $I = 10\%$

No. of yrs, $n = 2$

$$NPV = -I_0 + CF_1/(1+i)^n + CF_2/(1+i)^n + CF_3/(1+i)^n + CF_4/(1+i)^n$$

$$= -10,000 + 6000/(1.10) + 8000/(1.12)^2$$

$$= -10,000 + 5454.54 + 6611.57$$

$$= -10,000 + 12066.11$$

$$= 2066.11$$

Project B: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 4000$

Cash flow in yr 2, $CF_2 = \text{Rs } 4000$

Cash flow in yr 3, $CF_3 = \text{Rs } 4000$

Cash flow in yr 4, $CF_4 = \text{Rs } 4000$

Discount rate, $I = 10\%$

No. of yrs, $n = 4$ <http://vustudents.ning.com>

$$NPV = -I_0 + CF_1/(1+i)^n + CF_2/(1+i)^n + CF_3/(1+i)^n + CF_4/(1+i)^n$$

$$= -10,000 + 4000/(1.10) + 4000/(1.10)^2 + 4000/(1.10)^3 + 4000/(1.10)^4$$

$$= -10,000 + 3636.36 + 3305.8 + 3005.25 + 2732.053$$

$$= -10,000 + 12679.463$$

$$= 2679.463$$

MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 2)

Question No: 1 (Marks: 1) - Please choose on

In finance we refer to the market where existing securities are bought and sold as the _____ market.

- ▶ Money
- ▶ Capital
- ▶ Primary
- ▶ Secondary

Question No: 2 (Marks: 1) - Please choose one

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

▶ Its corresponding base year balance sheet item; its corresponding base year income statement item

- ▶ Its corresponding base year income statement item; its corresponding base year balance sheet item
- ▶ Net sales or revenues; total assets
- ▶ Total assets; net sales or revenues

Question No: 3 (Marks: 1) - Please choose on

To increase a given future value, the discount rate should be adjusted _____.

▶ Upward

- ▶ Downward
- ▶ First upward and then downward
- ▶ None of the given options

Question No: 4 (Marks: 1) - Please choose on

Which of the following investment alternatives would provide the greatest future value for your investment?

▶ 10% compounded daily (360 days)

- ▶ 10.5% compounded annually
- ▶ 10.25% compounded quarterly
- ▶ Incomplete information

Question No: 5 (Marks: 1) - Please choose one

As interest rates go up, the present value of a stream of fixed cash flows _____.

▶ Goes down

- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 6 (Marks: 1) - Please choose one

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

▶ Rs.250.44

- ▶ Rs.231.91
- ▶ Rs.181.62

► Rs.184.08

Question No: 7 (Marks: 1) - Please choose one

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

- Include sunk costs, but ignore opportunity costs
- **Include opportunity costs, but ignore sunk costs**
- Ignore both opportunity costs and sunk costs
- Include both opportunity and sunk costs

Question No: 8 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- Internal rate of return
- Multiple internal rate of return
- **Modified internal rate of return**
- Net present value

Question No: 9 (Marks: 1) - Please choose one

When coupon bonds are issued, they are typically sold at which of the following value?

- Below par
- Above par value
- **At or near par value**
- At a value unrelated to par

Question No: 10 (Marks: 1) - Please choose one

Which of the following has **NO** effect when the financial health (cash flows and income) of the company changes with time?

- Market value
- Price of the share
- **Par value**
- None of the given options

Question No: 11 (Marks: 1) - Please choose one

The value of dividend is derived from which of the following?

- Cash flow streams
- Capital gain /loss
- Difference between buying & selling price
- **All of the given options**

Question No: 12 (Marks: 1) - Please choose one

Which of the following is (are) true?

- I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return.

II. A decrease in the dividend growth rate will increase a stock's market value, all else the same.

III. An increase in the required return on a stock will decrease its market value, all else the same.

- ▶ I, II, and III
- ▶ I only
- ▶ III only
- ▶ II and III only

Question No: 13 (Marks: 1) - Please choose one

Diversification can reduce risk by spreading your money across many different _____.

- ▶ Investments
- ▶ Markets
- ▶ Industries
- ▶ All of the given options

Question No: 14 (Marks: 1) - Please choose one

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%
- ▶ 4.0%

Question No: 15 (Marks: 1) - Please choose one

When bonds are issued, under which of the following category the value of the bond appears?

- ▶ Equity
- ▶ Fixed assets

▶ Short term loan

▶ Long term loan

Question No: 16 (Marks: 1) - Please choose one

_____ means expanding the number of investments which cover different kinds of stocks.

▶ Diversification

▶ Standard deviation

▶ Variance

▶ Covariance

Question No: 17 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11% compounded annually?

▶ Rs.5,850

▶ Rs.4,872

▶ Rs.6,725

▶ Rs.1,842

Question No: 18 (Marks: 1) - Please choose one

By summing up the discounted cash flows we can calculate which of the following?

▶ Liquidation value

▶ Intrinsic value

▶ Book value

▶ Market value

Question No: 19 (Marks: 1) - Please choose one

Which of the following accounting equation is accurate?

- ▶ Assets +Equity = Liabilities + Expenses
- ▶ Assets + Expenses = Liabilities +Expenses + Revenue
- ▶ Assets + Liabilities = Equity + Expenses + Revenue
- ▶ Assets + Revenue + Liabilities = Equity

Question No: 20 (Marks: 1) - Please choose one

Which of the following equation can represent income statement in best way?

- ▶ Profit – Expenses = sales revenue
- ▶ Sales revenue – Expenses = Profit
- ▶ Assets + Liabilities= Equity
- ▶ Sales revenue + Equity = Assets

Question No: 21 (Marks: 1) - Please choose one

Which of the following is a type of annuity in which no time span is involved?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

Question No: 22 (Marks: 1) - Please choose one

All of the following are the examples of annuity EXCEPT:

- ▶ Mortgage payment
- ▶ Insurance premium
- ▶ Monthly rental payments
- ▶ Fixed coupon payments

Question No: 23 (Marks: 1) - Please choose one

_____ is the value of bond, which we expect the bond to be.

► Fair value

► Book value

► Market value

► Maturity value

Question No: 24 (Marks: 1) - Please choose one

YTM is equal to which of the following formula?

► Capital gain + market price

► Present value + interest yield

► Market price + interest yield

► Interest yield + capital gain yield

Question No: 25 (Marks: 1) - Please choose one

If there is an increase in a firm's expected growth rate then it will cause its required rate of return to_____.

► Increase

► Decrease

► Fluctuate more than before

► Possibly increase, decrease, or remain constant

Question No: 26 (Marks: 1) - Please choose one

_____ Which of the following formula could be used to calculate expected rate of return r ?

► $P_o / P_o \times P_1$

► $P_1 + P_o / P_o$

► $P_1 - P_o / P_o$

► $P_o - P_1 / P_o$

Question No: 27 (Marks: 1) - Please choose one

This is an example of which of the following concept?

ABC Corporation's stock price has fallen because it was not able to meet its production deadlines.

► Market risk

► Company specific risk

► Industry risk

► Economic risk

Question No: 28 (Marks: 1) - Please choose one

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria, which of the following project is most suitable to accept?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

► Project A

► Project B

► Project C

► Project A & B

Question No: 29 (Marks: 3)

By applying Common Life Approach calculate the NPV of the following projects:

Projects	Initial outflow	Inflow Yr 1	Inflow Yr 2
A	100	200	-
B	200	200	200

Solution:

Project A

$$NPV = -100 + (200 - 100) / 1.1 + 200 / (1.1)^2 = 156$$

Project B

$$NPV = -200 + 200 / 1.1 + 200 / (1.1)^2 = 147$$

Question No: 30 (Marks: 3)

There are two stocks in the portfolio of Mr. N, Stock A and Stock B. the information of this portfolio is as follows:

Common stock	Expected rate of return	Standard deviation
Stock A	15%	10%
Stock B	20%	15%

Calculate the expected rate of return on this portfolio assuming that Stock A consists of 75% of the total funds invested in the stocks and the remainder in Stock B.

Solution:

Apply formula on page 93 of handouts

$$= \{(75/100)^2(10/100)^2 + (25/100)^2(15/100)^2 + 2((75/100)(25/100)(10/100)(15/100)(.6))\}(.5)$$

$$= \{(0.5625)(0.01) + (.0625)(0.0225) + 2((.75)(.25)(.1)(.15)(.6))\}(.5)$$

$$= (0.010406) * .5$$

$$= 0.005203 * 100$$

$$= 0.520313\%$$

Question No: 31 (Marks: 5)

How risk affects the share price? (2.5)

What does the meaning of standard deviation in finance? (2.5)

Question No: 32 (Marks: 5)

Hammad Inc. is considering two alternative, mutually exclusive projects. Both projects require an initial investment of Rs. 10,000 and are typical, average-risk projects for the firm. Project A has an expected life of 2 years with after-tax cash inflow of Rs. 6,000 and Rs. 8,000 at the end of year 1 and 2, respectively.

Project B has an expected life of 4 years with after-tax cash inflow of Rs. 4,000 at the end of each of next 4 years. The firm's cost of capital is 10 percent.

If the projects cannot be repeated, which project will be selected, and what is the net present value?

Solution:

Net Present Value:

Project A: Initial investment, I_0 = Rs 10,000

Cash flow in yr 1, CF_1 = Rs 6000

Cash flow in yr 2, $CF_2 = \text{Rs } 8000$

Discount rate, $i = 10\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^n + CF_2/(1+i)^n + CF_3/(1+i)^n + CF_4/(1+i)^n$$

$$= -10,000 + 6000/(1.10) + 8000/(1.12)^2$$

$$= -10,000 + 5454.54 + 6611.57$$

$$= -10,000 + 12066.11$$

$$= 2066.11$$

Project B: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 4000$

Cash flow in yr 2, $CF_2 = \text{Rs } 4000$

Cash flow in yr 3, $CF_3 = \text{Rs } 4000$

Cash flow in yr 4, $CF_4 = \text{Rs } 4000$

Discount rate, $i = 10\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^n + CF_2/(1+i)^n + CF_3/(1+i)^n + CF_4/(1+i)^n$$

$$= -10,000 + 4000/(1.10) + 4000/(1.10)^2 + 4000/(1.10)^3 + 4000/(1.10)^4$$

$$= -10,000 + 3636.36 + 3305.8 + 3005.25 + 2732.053$$

$$= -10,000 + 12679.463$$

$$= 2679.463$$

MIDTERM EXAMINATION**Spring 2010****MGT201- Financial Management (Session - 6)****Question No: 1 (Marks: 1) - Please choose one**

_____ How
a company can improve (lower) its debt-to-total asset ratio?

- ▶ By borrowing more
- ▶ By shifting short-term to long-term debt
- ▶ By shifting long-term to short-term debt
- ▶ By selling common stock

Question No: 2 (Marks: 1) - Please choose one

_____ Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 3 (Marks: 1) - Please choose one

_____ To
increase a given future value, the discount rate should be adjusted _____.

- ▶ Upward
- ▶ Downward

► First upward and then downward

► None of the given options

Question No: 4 (Marks: 1) - Please choose one

_____ Cash
budgets are prepared from past:

► Income tax and depreciation data

► None of the given options

► Balance sheets

► Income statements

Question No: 5 (Marks: 1) - Please choose one

_____ A 5-
year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

► Rs.231.91

► Rs.184.08

► Rs.181.62

► Rs.170.44

Question No: 6 (Marks: 1) - Please choose one

_____ Which of the following technique would be used for a project that has non-normal cash flows?

► Internal rate of return

► Multiple internal rate of return

► Modified internal rate of return

► Net present value

Question No: 7 (Marks: 1) - Please choose one

_____ Why we need Capital rationing?

► Because, there are not enough positive NPV projects

► Because, companies do not always have access to all of the funds they could make use of

► Because, managers find it difficult to decide how to fund projects

► Because, banks require very high returns on projects

Question No: 8 (Marks: 1) - Please choose one

_____ Which of the following is a person or an institution designated by a bond issuer as the official representative of the bondholders?

► Indenture

► Debenture

► Bond

► Bond trustee

Question No: 9 (Marks: 1) - Please choose one

Market price of the bond changes according to which of the following reasons?

- ▶ Market price changes due to the supply –demand of the bond in the market
- ▶ Market price changes due to Investor's perception
- ▶ Market price changes due to change in the interest rate
- ▶ All of the given options

Question No: 10 (Marks: 1) - Please choose one

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

- ▶ An anticipated earnings growth rate which is less than that of the average firm
- ▶ A dividend yield which is less than that of the average firm
- ▶ Less predictable earnings growth than that of the average firm
- ▶ Greater cyclicalities of earnings growth than that of the average firm

Question No: 11 (Marks: 1) - Please choose one

Which of the following would tend to reduce a firm's P/E ratio?

- ▶ The firm significantly decreases financial leverage
- ▶ The firm increases return on equity for the long term
- ▶ The level of inflation is expected to increase to double-digit levels
- ▶ The rate of return on Treasury bills decreases

Question No: 12 (Marks: 1) - Please choose one

Which of the following factors might affect stock returns?

- ▶ The business cycle
- ▶ Interest rate fluctuations
- ▶ Inflation rates
- ▶ All of the above

Question No: 13 (Marks: 1) - Please choose one

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

- ▶ Rs.105,000
- ▶ Rs.150,000
- ▶ Rs.395,000
- ▶ Rs.350,000

Question No: 14 (Marks: 1) - Please choose one

While using capital budgeting techniques, the benefits we expect from a project is expressed in terms of:

- ▶ Cash in flows

- ▶ Cash out flows
- ▶ Cash flows
- ▶ None of the given options

Question No: 15 (Marks: 1) - Please choose one

_____ If the probability is written on Y-axis and the rate of return is mentioned on the X-axis, Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

- ▶ Indirect relationship
- ▶ No relationship
- ▶ Direct relationship
- ▶ Insufficient information

Question No: 16 (Marks: 1) - Please choose one

_____ By summing up the discounted cash flows we can calculate which of the following?

- ▶ Liquidation value
- ▶ Intrinsic value
- ▶ Book value
- ▶ Market value

Question No: 17 (Marks: 1) - Please choose one

_____ The value at which buyers and sellers are willing to buy and sell any asset is known as:

- ▶ Liquidation value
- ▶ Book value
- ▶ Intrinsic value

▶ Market value

Question No: 18 (Marks: 1) - Please choose one

Which of the following concept says that rupee in your hand today is better than the rupee you are going to get tomorrow?

▶ Risk & return

▶ Time value of money

▶ Net present value

▶ Portfolio diversification

Question No: 19 (Marks: 1) - Please choose one

Which of the following is a type of annuity in which no time span is involved?

▶ Ordinary annuity

▶ Annuity due

▶ Perpetuity

▶ None of the given options

Question No: 20 (Marks: 1) - Please choose one

Which of the following is the formula to calculate the future value of perpetuity?

▶ Constant cash flows $\times$ interest rate

▶ Constant cash flows / interest rate

▶ Constant cash flows + Constant cash flows $\times$ interest rate

▶ Constant cash flows - Constant cash flows/ interest rate

Question No: 21 (Marks: 1) - Please choose one

There is _____ relationship between NPV and Economic Value added.

- ▶ Direct
- ▶ Indirect
- ▶ No relationship
- ▶ Cannot be determined

Question No: 22 (Marks: 1) - Please choose one

_____ If new asset is replaced with old one, the difference between the depreciation of both assets would be:

- ▶ Useless and nothing to do with the depreciation
- ▶ Take the percentage of depreciation with new price of asset and then subtract it
- ▶ Subtracted from cash flows
- ▶ Added back to cash flows

Question No: 23 (Marks: 1) - Please choose one

_____ The formula which is used for the calculation of equivalent annual annuity is:

- ▶ $(1+i)^n + 1 / (1+i)^n$
- ▶ $(1+i)^{n-1} / (1+i)^n$
- ▶ $(1+i)^n \times (1+i)^n - 1$
- ▶ $(1+i)^n / (1+i)^n - 1$

Question No: 24 (Marks: 1) - Please choose one

_____ The responsibility of research & development projects lie with which of the following authority?

- ▶ Chief executive officer

► Divisional heads

- Collaborative teams from all departments
- Experts are hired to make such decisions

Question No: 25 (Marks: 1) - Please choose one

Market price of a share will be determined from _____.

- Supply of share only
- Demand of share only
- Price of share of Benchmark Company
- From demand and supply in the market

Question No: 26 (Marks: 1) - Please choose one

Which of the following is the formula to calculate present value under zero growth model for common stock?

- $DIV1 / r_{CE}$
- $DIV1 \times r_{CE}$
- $DIV1 + r_{CE}$
- $DIV1 - r_{CE}$

Question No: 27 (Marks: 1) - Please choose one

Earning per share can be calculated with the help of which of the following formula?

- Net income / number of shares outstanding
- Net income – dividend / number of shares outstanding
- Operating income / number of shares outstanding
- Earning before interest and taxes / number of shares outstanding

Question No: 28 (Marks: 1) - Please choose one

Which of the following statements is correct relating to the following information?

Stocks A and B each have an expected return of 15% and a standard deviation of 20%. You have a portfolio that consists of 50% A and 50% B.

- ▶ The portfolio's beta is less than 1.2
- ▶ The portfolio's expected return is 15%
- ▶ The portfolio's beta is greater than 1.2
- ▶ The portfolio's standard deviation is 20%

Question No: 29 (Marks: 3)

Briefly explain what call provision is and in which case companies use this option.

Call Provision:

The right (or option) of the Issuer to call back (redeem) or retire the bond by paying-off the Bondholders before the Maturity Date. When market interest rates drop, Issuers (or Borrowers) often call back the old bonds and issue new ones at lower interest rates

Question No: 30 (Marks: 3)

Lakson Corporation is a stagnant market and analysts foresee a long period of zero growth of the firm. It is paying a yearly dividend of Rs.5 for some time which is expected to continue indefinitely. The yield on the stock of similar firm is 8%.

What should lakson's stock sell for?

Data:

$P_0 = ?$

$D_1/V_1 = 5$

$$RCE = 8\%$$

Solution:

$$P_0 = D_1 V_1 / RCE$$

$$P_0 = 5 / 8\%$$

$$P_0 = 5 / 0.08$$

$$P_0 = 62.5$$

Question No: 31 (Marks: 5)

What are different types of bonds? (Give any five types)

Solution:

Types of Bonds:

Mortgage Bonds: backed & secured by real assets

Subordinated Debt and General Credit: lower rank and claim than Mortgage Bonds.

Debentures: These are not secured by real property, risky

Floating Rate Bond: It is defined as a type of bond bearing a yield that may rise and fall within a specified range according to fluctuations in the market. The bond has been used in the housing bond market

Eurobonds: it issued from a foreign country

Zero Bonds & Low Coupon Bonds: no regular interest payments (+ for lender), not callable (+ for investor)

Question No: 32 (Marks: 5)

H Corporation's stock currently sells for Rs.20 a share. The stock just paid a dividend of Rs.2 a share ($D_0 = \text{Rs.2}$). the dividend is expected to grow at a constant rate of 11% a year.

- ⌚ What stock price is expected 1 year from now?
- ⌚ What would be the required rate of return on company's stock?

Data:

$$P_0 = \text{Rs } 20$$

$$D_0 = 2.$$

$$g = 11\%$$

$$P_1 = ?$$

$$\text{ROR} = ?$$

Solution Part A:

$$P_1 = P_0(1 + g)$$

$$P_1 = 20(1.11)$$

$$P_1 = 22.2$$

Solution part B:

$$\text{ROR} = D_1 / P_0 + g$$

$$\text{ROR} = (2 * 1.11/20) + 0.11$$

$$\text{ROR} = (2.22/20) + 0.11$$

$$\text{ROR} = 0.111 + 0.11$$

$$\text{ROR} = 0.221 * 100$$

$$\text{ROR} = 22.1\%$$

MIDTERM EXAMINATION

Spring 2010

MGT201 - Financial Management**Question No: 1 (Marks: 1) - Please choose one**

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

- ▶ Operational; financial management
- ▶ Financial management; accounting
- ▶ Accounting; financial management
- ▶ Financial management; operations

Question No: 2 (Marks: 1) - Please choose one

Which of the following is equal to the average tax rate?

- ▶ Total tax liability divided by taxable income
- ▶ Rate that will be paid on the next dollar of taxable income
- ▶ Median marginal tax rate
- ▶ Percentage increase in taxable income from the previous period

Question No: 3 (Marks: 1) - Please choose one

In finance we refer to the market where existing securities are bought and sold as the _____ market.

- ▶ Money
- ▶ Capital
- ▶ Primary
- ▶ Secondary

Question No: 4 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 5 (Marks: 1) - Please choose one

_____ A 5-year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.231.91
- ▶ Rs.184.08
- ▶ Rs.181.62
- ▶ Rs.170.44

Question No: 6 (Marks: 1) - Please choose one

_____ A 5-year ordinary annuity has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following?

- ▶ Rs.331.20
- ▶ Rs.399.30
- ▶ Rs.431.24
- ▶ Rs.486.65

Question No: 7 (Marks: 1) - Please choose one

_____ In proper capital budgeting analysis we evaluate incremental _____ cash flows.

▶ Accounting

▶ Operating

▶ Before-tax

▶ Financing

Question No: 8 (Marks: 1) - Please choose one

_____ Mortgage bonds are secured by real property whose value is generally _____ than that of the value of the bonds issue?.

▶ Higher

▶ Lower

▶ Equal

▶ Higher or lower

Question No: 9 (Marks: 1) - Please choose one

_____ If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

▶ 7.00

▶ 6.53

► 8.53

► 7.18

Question No: 10 (Marks: 1) - Please choose one

_____ If a company issues bonus shares, what will be its effect on the debt equity ratio?

- It will improve
- It will deteriorate
- No effect
- None of the given options

Question No: 11 (Marks: 1) - Please choose one

_____ is equal to (common shareholders' equity/common shares outstanding).

- Book value per share
- Liquidation value per share
- Market value per share
- None of the above

Question No: 12 (Marks: 1) - Please choose one

_____ You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X:

- ▶ Will be greater than the intrinsic value of stock Y
- ▶ Will be the same as the intrinsic value of stock Y
- ▶ Will be less than the intrinsic value of stock Y
- ▶ Cannot be calculated without knowing the market rate of return

Question No: 13 (Marks: 1) - Please choose one

_____ You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

- ▶ Will be greater than the intrinsic value of stock B
- ▶ Will be the same as the intrinsic value of stock B
- ▶ Will be less than the intrinsic value of stock B
- ▶ None of the given options

Question No: 14 (Marks: 1) - Please choose one

_____ How dividend yield on a stock is similar to the current yield on a bond?

- ▶ Both represent how much each security's price will increase in a year
- ▶ Both represent the security's annual income divided by its price
- ▶ Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- ▶ Both incorporate the par value in their calculation

Question No: 15 (Marks: 1) - Please choose one

Which of the following would tend to reduce a firm's P/E ratio?

- ▶ The firm significantly decreases financial leverage
- ▶ The firm increases return on equity for the long term
- ▶ The level of inflation is expected to increase to double-digit levels
- ▶ The rate of return on Treasury bills decreases

Question No: 16 (Marks: 1) - Please choose one

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

- ▶ Percentage (%)
- ▶ Times
- ▶ Number of days
- ▶ All of the given options

Question No: 17 (Marks: 1) - Please choose one

_____ is one of the most common techniques of financial analysis.

- ▶ Analyzing the statement of equity
- ▶ Preparing the cash budget
- ▶ scrutinizing of Financial statement
- ▶ Forecasting the income statement

Question No: 18 (Marks: 1) - Please choose one

Which of the following formula is used to calculate the future value in simple interest?

▶ $FV = PV + (PV \times i \times n)$

▶ $FV / (PV \times i \times n) = PV$

▶ $FV = PV - (PV \times i \times n)$

▶ $FV = PV \times (PV \times i \times n)$

Question No: 19 (Marks: 1) - Please choose one

Which of the following are the types of annuities?

▶ Perpetuity and discrete annuity

▶ Ordinary and discrete annuity

▶ Discrete and simple annuity

▶ Ordinary and annuity due

Question No: 20 (Marks: 1) - Please choose one

Value of annuity depends upon which of the following factors?

▶ Cash inflows & outflows

▶ Required rate of return & cash flows

▶ Constant cash flows & discount factor

▶ Constant cash flows & life of investment

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement best describes capital budgeting?

- ▶ It's a tool which is used to evaluate the projects and fixed assets of the company
- ▶ A technique used to assess the working capital requirement
- ▶ It will help the management to decide whether the new venture should be taken up or not.
- ▶ All of the given options are correct

Question No: 22 (Marks: 1) - Please choose one

_____ IRR
can be defined as:

- ▶ A discount rate that equates the PV of a project's expected cash inflows to the PV of project's cost
- ▶ Present value of the stream of net cash flows from project's net investment
- ▶ It's a cost & benefits ratio used to assess the validity of a project
- ▶ The time period required to receive back the initial investment.

Question No: 23 (Marks: 1) - Please choose one

_____ If
the life of a project is 6 years and the life of other project is 2 years then least common multiple will be:

- ▶ 2 years
- ▶ 6 years
- ▶ 8 years
- ▶ 12 years

Question No: 24 (Marks: 1) - Please choose one

_____ Which of the following is the price which is mentioned on the bonds?

- ▶ Face value
- ▶ Salvage value
- ▶ Market value

- ▶ Book value

Question No: 25 (Marks: 1) - Please choose one

_____ is the value of bond, which we expect the bond to be.

- ▶ Fair value
- ▶ Book value
- ▶ Market value
- ▶ Maturity value

Question No: 26 (Marks: 1) - Please choose one

When you allocate capital, you choose investments that are more beneficial and less

- ▶ Diversified
- ▶ Risky
- ▶ Costly
- ▶ Value based

Question No: 27 (Marks: 1) - Please choose one

Which of the following is a major disadvantage of the corporate form of organization?

- ▶ Double taxation of dividends
- ▶ Inability of the firm to raise large sums of additional capital
- ▶ Limited liability of shareholders
- ▶ Limited life of the corporate form

Question No: 28 (Marks: 1) - Please choose one

Which of the following is **NOT** the form of cash flow generated by the investments of the shareholders?

- ▶ Income
- ▶ Capital loss
- ▶ Capital gain
- ▶ Operating income

Question No: 29 (Marks: 3)

Define interest rate risk and investment risk.

Interest rate risk

Interest rate risk is the risk (variability in value) borne by an interest-bearing asset, such as a loan or a bond, due to variability of interest rates. In general, as rates rise, the price of a fixed rate bond will fall, and vice versa. Interest rate risk is commonly measured by the bond's duration.

Investment Risk

The uncertainties attached while making an investment that the investment may not yield the expected returns.

OR

Possibility of a reduction in value of an insurance instrument resulting from a decrease in the value of the assets incorporated in the investment portfolio underlying the insurance instrument. This reduction can also be effected by a change in the interest rate.

Question No: 30 (Marks: 3)

What is risk averse assumption?

When we talk in terms of risk averse, we know that most investors are psychologically risk averse. In case of two investments offer with the same prospective return most investor would choose the one with the lower risk or standard deviation or spread or volatility. In other words most of the investors are not major gamblers. Gamblers would choose that project which appeals to investors greed by offering upside return of 30% plus 10% = 40%. The consequences on the share price, the higher the risk of share the higher its rate of return and the lower its market price, so any investor will choose surely with the low risk and he will take care of very closely risk averse assumption while finalizing any project.

Q If the cash flow stream for a project is NOT a uniform series of inflows and initial outflow occur at time 0. 15% discount rate produces a resulting present value of Rs. 104,000 that is greater than the initial cash outflow of Rs. 100,000. Now if we want to calculate the best discount rate:

- ▶ We need to try a higher discount rate
- ▶ We need to try a lower discount rate
- ▶ 15% is the best discount rate
- ▶ Interpolation is not required here

Question No: 31 (Marks: 5)

_____ **How**
negatively correlated investments behave in a market?

Solution:

If $R_o = -1.0$, it means that Investments are Perfectly Negatively Correlated and the Returns (or Prices or Values) of the 2 Investments move in Exactly Opposite directions. In this Ideal Case, All Risk can be diversified away. For example, if the price of one stock increases by 50% then the price of another stock goes down by 50%.

Question No: 32 (Marks: 5)

_____ **What types of shares are available in the market?**

The following are the shares available normally in the market;

1. Preferred Stock:

These stocks have regular Constant / Fixed Future Dividends Certain for the Preferred Shareholders. Use old Perpetuity Cash Flow Pattern and formulas to estimate theoretical Fair Stock Price.

2. Common Stock:

These stocks have variable future dividends expected by the common shareholders. Use Zero & Constant Growth Models to simplify future Dividend forecasts in estimated Theoretical Stock Price (or PV) equation. Their dividend depends upon the income earned by the company and also upon the management decision regarding the dividend declaration.

MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 5)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Which of the following statements is correct for a sole proprietorship?

- ▶ The sole proprietor has limited liability
- ▶ The sole proprietor can easily dispose of their ownership position relative to a shareholder in a corporation
- ▶ The sole proprietorship can be created more quickly than a corporation
- ▶ The owner of a sole proprietorship faces double taxation unlike the partners in a partnership

Question No: 2 (Marks: 1) - Please choose one

Which of the following market refers to the market for relatively long-term financial instruments?

- ▶ Secondary market
- ▶ Primary market
- ▶ Money market
- ▶ Capital market

Question No: 3 (Marks: 1) - Please choose one

Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5 percent. What are its sales?

- ▶ 750,0Rs.3, 750,000
- ▶ Rs.48Rs.480, 000
- ▶ Rs.30Rs.300, 000
- ▶ Rs.1, Rs.1, 500,000

Question No: 4 (Marks: 1) - Please choose one

_____ An investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return require by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ A return equal to or more than required by investor

Question No: 5 (Marks: 1) - Please choose one

_____ A
capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- ▶ Payback period
- ▶ Internal rate of return
- ▶ Net present value
- ▶ Profitability index

Question No: 6 (Marks: 1) - Please choose one

_____ A
capital budgeting technique that is **NOT** considered as discounted cash flow method is:

- ▶ Payback period
- ▶ Internal rate of return
- ▶ Net present value
- ▶ Profitability index

Question No: 7 (Marks: 1) - Please choose one

_____ Why
net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ Because it has direct link with shareholders wealth maximization
- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

Question No: 8 (Marks: 1) - Please choose one

_____ You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ Profitability index (PI)
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

Reference:

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6680/1710103.cw/content/index.html

Question#8

Question No: 9 (Marks: 1) - Please choose one

_____ Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets
- ▶ Intangible assets
- ▶ Fixed assets
- ▶ Real assets

Question No: 10 (Marks: 1) - Please choose one

_____ If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

▶ 7.00

▶ 6.53

▶ 8.53

▶ 7.18

Reference:

Current Yield = Coupon / Market Price

Current Yield = $7\% \times 1000 / 975$

Current Yield = $70 / 975$

Current Yield = 0.071×100

Current Yield = 7.18

Question No: 11 (Marks: 1) - Please choose one

Which of the following is designated by the individual investor's optimal portfolio?

- ▶ The point of tangency with the opportunity set and the capital allocation line
- ▶ The point of highest reward to variability ratio in the opportunity set
- ▶ The point of tangency with the indifference curve and the capital allocation line
- ▶ The point of the highest reward to variability ratio in the indifference curve

Reference:

[http://83.143.248.39/faculty/mmatee/Investment%20and%20Portfolio%20Management%20BUS%20415/docs/Chap007_Test%20Bank\(1\)_Solution.rtf](http://83.143.248.39/faculty/mmatee/Investment%20and%20Portfolio%20Management%20BUS%20415/docs/Chap007_Test%20Bank(1)_Solution.rtf)

Question#41

Question No: 12 (Marks: 1) - Please choose one

Assume that the expected returns of the portfolios are the same but their standard deviations are given in

the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%
- ▶ 4.0%

Question No: 13 (Marks: 1) - Please choose one

Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ All of the given options

Question No: 14 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ Sunk cost
- ▶ Opportunity cost
- ▶ Non-cash item

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of a financial intermediary? <http://vustudents.ning.com>

- ▶ Wisconsin S&L, a savings and loan association
- ▶ Strong Capital Appreciation, a mutual fund
- ▶ Microsoft Corporation, a software firm
- ▶ College Credit, a credit union

Question No: 16 (Marks: 1) - Please choose one

_____ An 8% coupon Treasury note pays interest on May 30 and November 30 and is traded for settlement on August 15. What is the accrued interest on Rs. 100,000 face value of this note?

- ▶ Rs. 491.80
- ▶ Rs. 800.00
- ▶ Rs. 983.61
- ▶ Rs. 1,661.20

Reference:

$76/183(4,000) = 1,661.20$. Approximation: $.08/12 \times 100,000 = 666.67$ per month. $666.67/\text{month} \times 2.5 \text{ months} = 1,666.67$.

Question No: 17 (Marks: 1) - Please choose one

_____ A preferred stock will pay a dividend of Rs. 3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

- ▶ Rs. 0.39
- ▶ Rs. 0.56

▶ Rs. 31.82

▶ Rs. 56.25

Reference:

$$PV = \text{DIV1} / r_{PE} = 3.5 / 11\% = 3.5 / 0.11 = \text{Rs } 31.82$$

Question No: 18 (Marks: 1) - Please choose one

Information that goes into _____ can be used to prepare _____.

- ▶ A forecast balance sheet; a forecast income statement
- ▶ Forecast financial statements; a cash budget
- ▶ Cash budget; forecast financial statements
- ▶ A forecast income statement; a cash budget

Question No: 19 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11% compounded annually?

- ▶ Rs.5,850
- ▶ Rs.4,872
- ▶ Rs.6,725
- ▶ Rs.1,842

Question No: 20 (Marks: 1) - Please choose one

_____ “Do not compare apples with oranges” is the concept in:

- ▶ Discounting and Net present value
- ▶ Risk & return

- ▶ Insurance management
- ▶ Time value of money

Question No: 21 (Marks: 1) - Please choose one

Which of the following is NOT the interest rate used for discounting calculation?

- ▶ Benchmark interest rate
- ▶ Effective interest rate
- ▶ Periodic interest rate
- ▶ Nominal interest rate

Question No: 22 (Marks: 1) - Please choose one

Which of the following is the formula to calculate the future value of perpetuity?

- ▶ Constant cash flows $\times$ interest rate
- ▶ Constant cash flows / interest rate
- ▶ Constant cash flows + Constant cash flows $\times$ interest rate
- ▶ Constant cash flows - Constant cash flows/ interest rate

Question No: 23 (Marks: 1) - Please choose one

Which of the following interest rate keeps on moving and changing on daily basis?

- ▶ Book value
- ▶ Market value
- ▶ Salvage value
- ▶ Face value

Question No: 24 (Marks: 1) - Please choose one

From which of the following formula we can calculate coupon rate?

- ▶ Coupon receipt / market value
- ▶ Coupon receipt / present value
- ▶ Coupon receipt / salvage value
- ▶ Coupon receipt / book value

Question No: 25 (Marks: 1) - Please choose one

Value of “g” in the formula of constant growth rate can be calculated from which of the following formula?

- ▶ $g = \text{plowback ratio} \times \text{ROE}$
- ▶ $g = \text{plowback ratio} \times \text{ROA}$
- ▶ $g = \text{payout ratio} + \text{ROE}$
- ▶ $g = \text{payout ratio} + \text{ROA}$

Question No: 26 (Marks: 1) - Please choose one

_____ In Gordon's formula ($r_{CE} = \text{DIV1} / P_0 + g$), r_{CE} is considered as _____ and “g” is considered as _____.

- ▶ Dividend yield, operating expenses
- ▶ Dividend yield, operating income
- ▶ Dividend yield, capital loss
- ▶ Dividend yield, capital gain

Question No: 27 (Marks: 1) - Please choose one

_____ To
calculate the annual rate of return for an investment, we require which of the following(s)?

- ▶ The income created
- ▶ The gain or loss in value
- ▶ The original value at the beginning of the year
- ▶ All of the given options

Question No: 28 (Marks: 1) - Please choose one

_____ This
is an example of which of the following?

Real estate prices fell across the board because the market was glutted with surplus pre-owned homes for sale.

- ▶ Economic risk
- ▶ Industry risk
- ▶ Company risk
- ▶ Market risk

Question No: 29 (Marks: 3)

_____ **Briefly explain what call provision is and in which case companies use this option.**

Call Provision:

The right (or option) of the Issuer to call back (redeem) or retire the bond by paying-off the Bondholders before the Maturity Date. When market interest rates drop, Issuers (or Borrowers) often call back the old bonds and issue new ones at lower interest rates

Question No: 30 (Marks: 3)

There are two stocks in the portfolio of Mr. N, Stock A and Stock B. the information of this portfolio is as follows:

Common stock	Expected rate of return	Standard deviation
Stock A	15%	10%
Stock B	20%	15%

Calculate the expected rate of return on this portfolio assuming that Stock A consists of 75% of the total funds invested in the stocks and the remainder in Stock B.

Solution:

Apply formula on page 93 of handouts.

$$\begin{aligned}
 &= \{(75/100)^2(10/100)^2 + (25/100)^2(15/100)^2 + 2((75/100)(25/100)(10/100)(15/100)(.6))\}(.5) \\
 &= \{(0.5625)(0.01) + (.0625)(0.0225) + 2((.75)(.25)(.1)(.15)(.6))\}(.5) \\
 &= (0.010406) * .5 \\
 &= 0.005203 * 100 \\
 &= 0.520313\%
 \end{aligned}$$

Question No: 31 (Marks: 5)

(a) What is correlation of coefficient?

Solution:

Correlation Coefficient (AB or “Ro”):

Risk of a Portfolio of only 2 Stocks A & B depends on the Correlation between those 2 stocks.

The value of Ro is between -1.0 and +1.0

If $R_o = 0$ then Investments are Uncorrelated & Risk Formula simplifies to Weighted Average Formula. If $R_o = + 1.0$ then Investments are Perfectly Positively Correlated and this means that Diversification does not reduce Risk.

If $R_o = - 1.0$, it means that Investments are Perfectly Negatively Correlated and the Returns (or Prices or Values) of the 2 Investments move in Exactly Opposite directions. In this Ideal Case, All Risk can be diversified away. For example, if the price of one stock increases by 50% then the price of another stock goes down by 50%.

In Reality, Overall R_o for most Stock Markets is about $R_o = + 0.6$. it is very rough rule of thumb. It means that correlations are not completely perfect and you should remember that if the correlation coefficient is +1.0 then it is not possible to reduce the diversifiable risk.

This means that increasing the number of Investments in the Portfolio can reduce some amount of risk but not all risk

(b) What are efficient portfolios?

Solution:

Efficient Portfolios are those whose Risk & Return values match the ones computed using Theoretical Probability Formulas. The Incremental Risk Contribution of a New Stock to a Fully

Diversified Portfolio of 40 Un-Correlated Stocks will be the Market Risk Component of the New Stock only. The Diversifiable Risk of the New Stock would be entirely offset by random movements in the other 40 stocks. Adding a New Stock to the existing Portfolio will create more Efficient Portfolio Curves. The New Stock will contribute its own Incremental Risk and Return to the Portfolio.

Question No: 32 (Marks: 5)

Suppose you approach a bank for getting loan. And the bank offers to lend you Rs.1, 000,000 and you sign a bond paper. The bank asks you to issue a bond in their favor on the following terms required by the bank: Par Value = Rs 1, 000,000, Maturity = 3 years

Coupon Rate = 15% p.a, Security = Machinery

You are required to calculate the cash flow of the bank which you will pay every month as well as the present value of this option.

Data:

Par Value = Rs 1, 000,000

Maturity = 3 years

Coupon Rate = 15% p.a,

Security = Machinery

Solution:

CF = Cash Flow = Coupon Value = Coupon Rate x Par Value

CF = 15% x 1,000,000

CF = 150000

Assume that $r_D = 10\%$

$$PV = CF_1/(1+r_D/12)^{12} + CF_n/(1+r_D/12)^{2 \times 12} + \dots + CF_n/(1+r_D/12)^n + PAR/(1+r_D)^n$$

$$PV = 150000/(1 + 0.10/12)^{12} + 150000/(1 + 0.10/12)^{2 \times 12} + 150000/(1 + 0.10/12)^{3 \times 12} + 1000000/(1 + 0.10/12)^{3 \times 12}$$

$$PV = 150000/(1.00833)^{12} + 150000/(1.00833)^{24} + 150000/(1.00833)^{36} + 1000000/(1.00833)^{36}$$

$$PV = 135787 + 122921 + 111274 + 741828$$

$$PV = 1111810$$

Solution #2

CF = Cash Flow = Coupon Value = Coupon Rate x Par Value

CF = 15% x 1,000,000

CF = 150000/12

Monthly CF = 12500

Assume that $r_D = 10\%$

$$PV = CF_1/(1+r_D/12)^1 + CF_n/(1+r_D/12)^{2 \times 12} + \dots + CF_n/(1+r_D/12)^n + PAR/(1+r_D)^n$$

$$PV = 12500/(1 + 0.10/12)^1 + 12500/(1 + 0.10/12)^{2 \times 12} + 12500/(1 + 0.10/12)^{3 \times 12} + 1000000/(1 + 0.10/12)^{3 \times 12}$$

$$PV = 12500/(1.00833)^1 + 12500/(1.00833)^{24} + 12500/(1.00833)^{36} + 1000000/(1.00833)^{36}$$

$$PV = 11315.60425 + 10243.43196 + 9272.849775 + 741828$$

$$PV = 772660$$

$$FV = CCF (1 + r_D/m)^{n \times m} - 1/r_D/m$$

$$FV = 12500 (1 + 10\%/12)^{3 \times 12} - 1 / 10\%/12$$

$$FV = 12500 (41.779)$$

$$FV = 522237.5$$

$$PV (\text{Coupons Annuity}) = FV / (1 + r_D/m)^{n \times m}$$

$$PV = 522237.5/(1 + 10\%/12)^{3 \times 12}$$

$$PV = 522237.5/1.348021407$$

$$PV = 387410$$

$$PV (\text{Par}) = 1,000,000 / (1.00833)^{36}$$

$$PV (\text{Par}) = 741828$$

$$PV = PV (\text{Coupons Annuity}) + PV (\text{Par})$$

$$PV = 387410 + 741828$$

$$PV = 1129238$$

MGT201 Solved MCQ

Question # 1

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

Question # 2

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Question # 3

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost

Sunk cost

Floatation cost

Question # 4

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations? Select correct option:

- (Rs.100)(FVIFA at 8% for 5 periods)
- (Rs.100)(FVIFA at 8% for 4 periods)(1.08)
- (Rs.100)(FVIFA at 8% for 5 periods)(1.08)
- (Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Ref: <http://web.utk.edu/~jwachowi/annuity3.html> Check Question #7

Question # 5

When the bond approaches its maturity, the market value of the bond approaches to which of the following? Select correct option:

- Intrinsic value
- Book value
- Par value
- Historic cost

Question #6

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders? Select correct option:

- Indenture
- Debenture
- Bond
- Bond trustee

Reference: A trustee is a person or institution designated by a bond issuer as the official representative of the bondholders.

Question # 7

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Select correct option:

Sunk cost

Opportunity cost

Externalities (Page50)

Contingencies

Question #8

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Question # 9

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 10

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 12

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

Reference:

Indenture -- The legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders, establishing the terms of the bond issue and naming the trustee.

Question # 13

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

Rs.105,000 (Doubted)

Rs.1,500,000

Rs.3975,000

Rs. 350,000

Question # 14

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Reference: Long Term Liabilities: Also, called Discretionary Financing does not grow in proportion to Sales

Question # 15

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$$20000/(1.08)^{20} = 93129$$

Question # 16

Which of the following is the Double Entry Principle?

Select correct option:

Assets + Liabilities = Shareholders' Equity

Assets = Liabilities + Shareholders' Equity

Liabilities = Assets + Shareholders' Equity

None of the given option

Reference:

Fundamental Accounting Equation and Double Entry Principle.

- Assets +Expense = Liabilities + Shareholders' Equity + Revenue

(Note: Expense & Revenue are Temporary P/L accounts – the others are Permanent Balance Sheet

Accounts)

- Left Hand Items increase when debited. Right Hand items increase when credited.
- For every journal entry, the Sum of Debits = the Sum of Credits

Question # 17

What are the Direct claim securities?

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Reference: Page 82

Direct claim securities like bond and stocks the value of security can be calculated from the cash flows of underlying assets

Question # 18

Which of the following is NOT true regarding an ordinary annuity?

Select correct option:

It is a series of equal cash flows

Cash flows occur for a specific time period

Payments are made at the start of each period

It is also known as deferred annuity

Reference:

Ordinary Annuity

An ordinary annuity, also known as deferred annuity, consists of a series of equal payments at the end of each period.

Question # 19

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Question # 20

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Reference:

The payback method focuses on the payback period. The payback period is the length of time that it takes for a project to recoup its initial cost out of the cash receipts that it generates. This period is some times referred to as "the time that it takes for an investment to pay for itself."

The basic premise of the payback method is that the more quickly the cost of an investment can be recovered, the more desirable is the investment. The payback period is expressed in years. When the net annual cash inflow is the same every year, the following formula can be used to calculate the payback period.

Question # 21

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change
Incomplete information

Question # 22

As interest rates go up, the present value of a stream of fixed cash flows ____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Question # 23

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 24

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

Reference:

<http://www.investopedia.com/terms/b/bookvaluepercommon.asp>

Question # 25

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An

increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

Question # 26

Given no change in required returns, the price of a stock whose dividend is constant will _____.

Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Question # 27

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Reference:

Page 29

Question # 28

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not
Shares are representing ownership whereas bonds are not
Shares and bonds both represent equity
Shares and bond both represent liabilities

Question # 29

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

Question # 30

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Reference:

Page 64

Question # 31

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing
Difficult ownership resale
Raising capital

Question # 32

_____ are also known as Spontaneous Financing.
Select correct option:

Current liabilities

Current assets
Fixed assets
Long-term liabilities

Reference:

Current Liabilities: Also called Spontaneous Financing. Generally grow in proportion to Sale.

Question # 33

_____ is paid by companies with lower grade bonds like CC or C ratings.
Select correct option:

Default risk premium

Sovereign Risk Premium
Market risk premium
Maturity risk premium

Reference:

Page 20 & 22

Question # 34

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

<http://vustudents.ning.com>

Select correct option:

Financial accounting

Financial management

Financial engineering

Financial budgeting

Question # 35

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 36

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 37

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?

Select correct option:

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs

Estimate the retained earnings

Question # 38

Which of the following is NOT the type of Hybrid organizations?
Select correct option:

- S-Type Corporation
- Limited Liability Partnership
- Sole Proprietorship**
- Professional Corporation

Question # 39

Which of the following techniques would be used for a project that has non-normal cash flows?
Select correct option:

- Internal rate of return
- Multiple internal rate of return**
- Modified internal rate of return
- Net present value

Question # 40

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.
Select correct option:

- IRR
- MIRR**
- PV
- NPV

Question # 41

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

By borrowing more
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By selling common stock

Question # 42

In which of the following approach you need to bring all the projects to the same length in time?

Select correct option:

MIRR approach
Going concern approach
Common life approach
Equivalent annual approach

Question # 43

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Reference:

It is a process of making investment decisions on viable projects where funds are limited. Investments decisions are made given a fixed amount of capital to be invested in viable projects. If a company doesn't have sufficient funds to undertake all projects with a positive NPV, this is a capital rationing situation.

Question # 44

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 45

Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?

Involvement of interest rate while making calculations

Do not account for time value of money

Tricky and complicated methods

All of the given options

Question # 46

How can a company improve (lower) its debt-to-total asset ratio?

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Question # 47

The value of the bond is NOT directly tied to the value of which of the following assets?

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Question # 48

The value of a bond is directly derived from which of the following?

- Cash flows
- Coupon receipts
- Par recovery at maturity
- All of the given options

Question # 49

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- Par value
- Market value
- Intrinsic value
- Face value

Question # 50

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

- Higher; lower
- Lower; Lower
- Lower; higher
- Higher; higher

Reference:

A good project might suffer from a lower IRR even though its NPV is higher.

Question # 51

Which group of ratios shows the extent to which the firm is financed with debt

Select correct option:

- Liquidity ratios
- Debt ratios

Coverage ratios
Profitability ratios

Question # 51

When bonds are issued, under which of the following category the value of the bond appears

Select correct option:

- Equity
- Fixed assets
- Short term loan
- Long term loan**

Question # 52

Which of the following refers to bringing the future cash flow to the present time

Select correct option:

- Net present value
- Discounting**
- Opportunity cost
- Internal rate of return

Question # 53

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

- Magnitude of expected cash flows
- Timing of expected cash flows
- Both timing and magnitude of cash flows**
- None of the given options

Question # 54

Effective interest rate is different from nominal rate of interest because

Select correct option:

- Nominal interest rate ignores compounding
- Nominal interest rate includes frequency of compounding
- Periodic interest rate ignores the effect of inflation (Doubted)
- All of the given options

Effective Interest Rate = i_{eff}

It is very useful to compare securities and investments with different life or compounding cycles but not used for Discounting and PV.

Question # 55

What are the Indirect securities

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

- The securities whose value depends on the value of the underlying assets
- The securities that indirectly generate returns for its investors
- All of the given options

Reference: Indirect Securities: Indirect securities include derivatives, Futures and Options
The securities do not generate any cash flow; however, its value depends on the value of the underlying asset.

Question # 56

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following

Select correct option:

- Life span of the project
- Cost of the capital
- Return on asset
- None of the given options

Reference:

Lecture 12

Question # 57

When a bond will sell at a discount

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

Question # 58

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 59

capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value
Profitability index

Question # 60

Which of the following is the general assumption of Percent of Sales Forecasting?

Select correct option:

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

Current Assets usually grow in proportion to Liabilities

Current Assets usually grow in proportion to Sales

Question # 61

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Question # 62

Which of the following is NOT true regarding an annuity due?

Select correct option:

It is a series of equal cash flows

It is also known as deferred annuity

Cash flows occur for a specific time period

Payments are made at the start of each period

Question # 63

When coupon bonds are issued, they are typically sold at which of the following value?

Select correct option:

Above par value

Below par

At or near par value

At a value unrelated to par

Question # 64

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 65

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

Question # 66

Why we need Capital rationing?

Select correct option:

Because, there are not enough positive NPV projects

Because, companies do not always have access to all of the funds they could make use of

Because, managers find it difficult to decide how to fund projects
Because, banks require very high returns on projects

Question # 67

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 68

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options.

Question # 69

Which of the following is/are the characteristic(s) of Perpetuity?

Select correct option:

It is an annuity

It has no definite end

It is a constant stream of identical cash flows

All of the given options

Question # 70

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Question # 71

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$$FV = PV \times e^{i \times n}$$

$$FV = 20000 \times 2.718(0.08 \times 20)$$

$$FV = 20000 \times 4.95221081$$

$$FV = 99044.2162$$

Question # 72

Question # 3 of 15 (Start time: 10:32:12 PM) Total Marks: 1

Which of the following is a limitation of a Corporation?

Select correct option:

Easy to set up

Double-taxation

Inexpensive to maintain

Unlimited liability

Limitations:

i. Double Taxation:

Corporate earnings may be subject to double taxation – the earnings of the corporation are taxed at corporate level, and then any earnings paid out as dividends are taxed again as income to the stockholders.

ii. Legal Formalities:

Setting up a corporation, and filing many official documents, is more complex and time consuming than for a proprietor ship or a partnership

Question # 73

The return in excess to risk free rate that investors require for bearing the market risk is known as:

Select correct option:

- Default risk premium
Sovereign Risk Premium
Market risk premium
Maturity risk premium

Question # 74

Study the time line and accompanying 5-period cash-flow pattern below.

	0	1	2	3	4	5	6
Time line	-----	-----	-----	-----	-----	-----	
Cash flows		A	B	The present value of the 5-period annuity shown above as of Point A is the present value of a 5-period _____, whereas the future value of the same annuity as of Point B is the future value of a 5-period _____.			

Select correct option:

- Ordinary annuity; ordinary annuity
Ordinary annuity; annuity due
Annuity due; annuity due
Annuity due; ordinary annuity

Question # 75

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Reference: (Page63)

One form of the debt is bonds. Value of Direct Claim Security is directly will be determined by the value of the underlying Real Asset.

Question # 76

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 77

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 78

What is the additional amount a borrower must pay to lender to compensate for

assuming the risk associated with non-payment?
Select correct option: <http://vustudents.ning.com>

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 79

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Reference: (Page14)

Operating Revenue – Other Expenses + Other Revenue = EBIT

Question # 80

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Question # 81

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

Reference:

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Question # 82

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 83

Which of the following is type a Temporary Account?

Select correct option:

Asset

Liability

Reserves

Revenue

Reference:

P/L Items or Accounts are 'temporary' accounts that need to be closed at the end of the accounting cycle

Question # 84

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Question # 85

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____?

Select correct option:

Both bonds will increase in value, but bond A will increase more than bond B

Both bonds will increase in value, but bond B will increase more than bond A

Both bonds will decrease in value, but bond A will decrease more than bond B

Both bonds will decrease in value, but bond B will decrease more than bond A

Question # 86

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money

It neglects cash flows after the payback period

It does not use interest rate while making calculations

It is a tricky and complicated method

REF: payback period is a simple and straightforward method for analyzing. Page 40

Question # 87

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium (doubted)

Maturity risk premium

Question # 88

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Question # 89

What is yield to maturity on a bond?

Select correct option:

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 90

What should be the focal point of financial management in a firm?

Select correct option:

The number and types of products or services provided by the firm

The minimization of the amount of taxes paid by the firm

The creation of value for shareholders

The dollars profits earned by the firm

Question # 91

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

Accounts that are found on Balance Sheet

All of the given options

Question # 92

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical

None of the given options

Question # 93

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?

Select correct option:

3.33%

30%

31%

70%

Reference:

Plowback = 1 - Payout

Plowback + Payout = 1

Payout = 1 - Plowback

Payout = 1 - 30%

Payout = 1 - 0.3

Payout = 0.07 * 100

Payout = 70%

Question # 94

Which of the following is the risk of investing funds in another country?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 95

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 96

MIRR (discount rate) equates which of the following?

Select correct option:

Future value of cash inflows to the present value of cash outflows

Future value of cash flows to the present value of cash flows

Future value of all cash flows to zero

Present value of all cash flows to zero

Question # 97

Which of the following is the main objective of 'Economics'?

Select correct option:

Profit maximization

Maximization of shareholders wealth

Collection of accurate, systematic, and timely financial data

All of the given options

Question # 98

An investment proposal should be judged in whether or not it provides:

Select correct option:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

Question # 99

Which of the following refers to time value of money concept?

Select correct option:

A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow

All of the given options

Question # 100

Which of the following is NOT true regarding the capital market?

Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year

Where TFCs and NIT are exchanged and traded

Where overnight lending & borrowing takes place

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) Total Marks: 1

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) Total Marks: 1

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 4 of 10 (Start time: 04:07:25 PM) Total Marks: 1

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

\\Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

[Reference](#)

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

Its not multiple compounding otherwise use this formula

$P \cdot (1+i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Lon term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

FV = PMT * ((1+i)^n - 1)/i (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1) / i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1) / 0.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000 / 6.46 = 154.73$$

Now from above two ann

MGT201 Solved MCQ3 from Quiz

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ { [270] } - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

MGT201 Solved MCQ4 from Quiz

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical growth of earnings than that of the average firm

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

Reference

Expected Portfolio Return = _____.

Select correct option:

$r_P = x_A r_A + x_B r_B$

$r_P = x_A r_A - x_B r_B$

$r_P = x_A r_A / x_B r_B$

$r_P = x_A r_A * x_B r_B$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

For most firms, P/E ratios and risk _____.
Select correct option:

- Will be directly related
- Will have an inverse relationship**
- Will be unrelated
- None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?
Select correct option:

- Debt capacity
- Debt-service burden**
- Adequacy capacity
- Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?
Select correct option:

- APT stipulates
- CAPM stipulates
- Both CAPM and APT stipulate**
- Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

Select correct option:

- Business cycle
- Interest rate fluctuations
- Inflation rates

All of the above

If all things equal, when diversification is most effective?

Select correct option:

- Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

<http://vustudents.ning.com>

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

Debt

Preferred stock

None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution
Expected return
Standard deviation
Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm
The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock
The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability
Single tax filing
Difficult ownership resale
Raising capital

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows
Cash out flows
Cash flows
None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability
Level of fixed operating costs
Closeness to its operating break-even point
Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25
-1.0
1.0
0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

- Fixed costs
- Variable costs
- Debt financing
- Common equity financing**

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

- There is less demand for stock than for bonds
- There is greater demand for stock than for bonds
- There is more systematic risk involved for the common stock**
- There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

- Liquidation value per share
- Market value per share
- None of the above

When a bond will sell at a discount?

Select correct option:

- The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- The coupon rate is greater than yield to maturity
- The coupon rate is less than the current yield and the current yield is greater than the yield to maturity**

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

- Cash outflow to the government for taxes**
- Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares
Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Cash budgets are prepared from past:

Select correct option:

Balance sheets

Income statements

Income tax and depreciation data

None of the given options

The cash budget is prepared from forecasted cash collections and disbursements rather

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?
Select correct option:

- An increase
- A decrease**
- No change
- Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?
Select correct option:

- The Capital Asset Pricing Model
- M&M Proposition I
- M&M Proposition II**
- The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?
Select correct option:

- Real assets of the business
- Liquid assets of the business**
- Fixed assets of the business
- Long term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk**
- Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

- Bankruptcy costs
- Agency costs

Transactions costs
Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

According to timing difference problem a good project might suffer from ____ IRR even though its NPV is ____.

Select correct option:

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$r_P^* = x_A r_A + x_B r_B$

$r_P^* = x_A r_A - x_B r_B$

$r_P^* = x_A r_A / x_B r_B$

$r_P^* = x_A r_A * x_B r_B$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

For most firms, P/E ratios and risk ____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return

Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

Fundamental analysts

Systems analysts

Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same

I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk
Covariances can take on positive, negative, or zero values

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

- Accrued wages
- Trade credit
- Commercial paper**
- Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

- Total assets
- Fixed assets
- Current assets
- Current assets minus current liabilities**

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

- Increase
- Decrease**
- Either increase or decrease
- None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

- Comparable
- Correlated**

Highly correlated
Negatively correlated

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders
Shareholders
Bondholders
Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm
A dividend yield which is less than that of the average firm
Less predictable earnings growth than that of the average firm
Greater cyclical growth of earnings than that of the average firm

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares
The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend
The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk**
- Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

- Unlevered firm
- Unlevered firm plus the value of the debt
- Unlevered firm plus the present value of the tax shield**
- Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

- Debt capacity**
- Debt-service burden
- Adequacy capacity
- Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

- Discount basis interest rate
- Long-term bond rate
- Prime rate**
- Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

- M&M Proposition I with taxes
- M&M Proposition I without taxes
- M&M Proposition II without taxes**
- M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

- Debt capacity
- Debt-service burden**
- Adequacy capacity
- Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

- Net present value, profitability index
- Net present value; internal rate of return**
- Net present value; payback period
- Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

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Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

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Its operating risk increases

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Which of the following factor(s) do NOT affects the movements in the market index?

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Macroeconomic factors

Socio political factors

Social factors

All of the given options

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Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

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Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

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Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

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Select correct option:

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Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

- Its financial risk increases
- Its operating risk increases
- The expected return on equity increases**
- The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

- Borrow short term to finance additional fixed assets**
- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities
- Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

- Equity
- Fixed assets
- Short term loan
- Long term loan**

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

,

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

- Maximizing the market value of the firm
- Maximizing the market value of the firm only if MM's Proposition I
- Minimizing the market value of the firm only if MM's Proposition I holds
- Maximizing the profits of the firm**

Which of the following has the same meaning as the working capital to financial analyst?

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- Fixed assets

Current assets

Current assets minus current liabilities

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- Risk faced by equity holders when debt is used**
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- Depreciable basis
- Financing umbrella
- Current yield

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Select correct option:

- Less than
- More than**
- Equal to
- Can not be found from the given information

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- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

- By borrowing more
- By shifting short-term to long-term debt
- By shifting long-term to short-term debt
- By selling common stock**

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

- Macroeconomic factors
- Socio political factors
- Social factors**
- All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

- Inability of the firm to raise large sums of additional capital
- Limited liability of shareholders
- Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

because its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850 (6015)

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____. <http://vustudents.ning.com>

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line not sure

It will be tangent to the regression line

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Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

- Cash flows
- Coupon receipts
- Par recovery at maturity
- All of the given options**

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business.

His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation
- d. Sole proprietorship**

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is known as:

- a. SWOT Analysis**
- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than

its coupon rate, the bond is selling at:

- a. A premium**
- b. A discount
- c. Cannot be determined without more information
- d. Face value

4. Which of the following statements best describe the 'Balance Sheet'?

- a. Summarizes the firm's revenues and expenses over an accounting period
- b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
- c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

- a. They measure the amount of debt the firm uses
- b. They measure how effectively a firm is managing its assets
- c. They show the relationship of a firm's cash and other current assets to its current liabilities
- d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

- a. When a project has conventional cash flows patterns
- b. When a project has a non-conventional cash flow pattern
- c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the

same period. This could have happened if:

- a. Cost of goods sold increased relative to sales.
- b. Sales increased relative to expenses.

c. The tax rate has been increased

- d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

- a. Will not experience any difficulty with its creditors.
- b. Has less liquidity than other firms in the industry.
- c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

- a. Based on their estimated liquidation value
- b. Based on their relative importance to the company
- c. Based on their actual purchase price
- d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

- b. Inventory is liquidated for cash.
- c. New common stock is sold and used to retire a debt issue.
- d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

- a. Discounting
- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity

c. An annuity due

- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call
- b. Coupon payment

c. Yield-to-maturity

- d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

- a. Its price will rise
- b. Its price will remain unchanged
- c. Its price will fall.
- d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. **Primary money market**
- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is

less than its coupon rate, the bond will be selling at _____.

a. A discount

- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.
- c. Is zero if the company pays no dividends
- d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its

dividend yield is 8%. At what price is the stock selling?

- a. Rs.40
- b. Rs.35

c. Rs.30

- d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

- a. Growth stock
- b. **Income stock**
- c. Aggressive stock
- d. Defensive stock

FINAL TERM EXAMINATION

Spring 2009

MGT201- Financial Management (Session - 2)**Question No: 1 (Marks: 1) - Please choose one**

What is the long-run objective of financial management?

- ▶ **Maximize earnings per share**
- ▶ Maximize the value of the firm's common stock
- ▶ Maximize return on investment
- ▶ Maximize market share

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 3 (Marks: 1) - Please choose one

What is the present value of a Rs.1,000 ordinary annuity that earns 8% annually for an infinite number of periods?

- ▶ Rs.80
- ▶ Rs.800
- ▶ Rs.1,000
- ▶ **Rs.12,500**

Question No: 4 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ **Life span of the project**
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ **Return on asset**

Question No: 5 (Marks: 1) - Please choose one

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Question No: 6 (Marks: 1) - Please choose one

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____.

- ▶ Both bonds will increase in value, but bond A will increase more than bond B
- ▶ **Both bonds will increase in value, but bond B will increase more than bond A**
- ▶ Both bonds will decrease in value, but bond A will decrease more than bond B
- ▶ Both bonds will decrease in value, but bond B will decrease more than bond A

Question No: 7 (Marks: 1) - Please choose one

Given no change in required returns, the price of a stock whose dividend is constant will _____.

- ▶ **Remain unchanged**
- ▶ Decrease over time at a rate of $r\%$
- ▶ Increase over time at a rate of $r\%$
- ▶ Decrease over time at a rate equal to the dividend growth rate

Question No: 8 (Marks: 1) - Please choose one

_____ For most firms, P/E ratios and risk_____.

- ▶ **Will be directly related**
- ▶ Will have an inverse relationship
- ▶ Will be unrelated
- ▶ Will both increase as inflation increases

Question No: 9 (Marks: 1) - Please choose one

_____ Which of the following statement about portfolio statistics is **CORRECT**?

- ▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**
- ▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- ▶ The square root of a portfolio's standard deviation of return equals its variance.
- ▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 10 (Marks: 1) - Please choose one

_____ Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ **The expected return**

- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 11 (Marks: 1) - Please choose one

_____ The square of the standard deviation is known as the _____.

- ▶ Beta
- ▶ Expected return
- ▶ Coefficient of variation
- ▶ **Variance**

Question No: 12 (Marks: 1) - Please choose one

_____ Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 13 (Marks: 1) - Please choose one

_____ An investor was expecting a 18% return on his portfolio with beta of 1.25 before the market risk premium increased from 8% to 10%. Based on this change, what return will now be expected on the portfolio?

- ▶ **22.5%**
- ▶ 20.0%
- ▶ 20.5%
- ▶ 26.0%

Question No: 14 (Marks: 1) - Please choose one

_____ Which of the following is the characteristic of a well diversified portfolio?

- ▶ Its market risk is negligible
- ▶ **Its unsystematic risk is negligible**
- ▶ Its systematic risk is negligible
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

_____ How the beta of a stock can be calculated?

- ▶ By monitoring price of the stock
- ▶ By monitoring rate of return of the stock
- ▶ **By comparing the changes in the stock market price to the changes in the stock market index**
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

Which of the following formula relates beta of the stock to the standard deviation?

- ▶ Covariance of stock with market * variance of the market
- ▶ **Covariance of stock with market / variance of the market**
- ▶ Variance of the market / Covariance of stock with market
- ▶ Slope of the regression line

Question No: 17 (Marks: 1) - Please choose one

_____ A
beta greater than 1 for a stock shows:

- ▶ Stock is relatively more risky than the market
- ▶ If the market moves up by 10% the stock will move up by 12%
- ▶ As the market moves the stock will move in the same direction
- ▶ **All of the given options**

Question No: 18 (Marks: 1) - Please choose one

_____ If
stock is a part of totally diversified portfolio then its company risk must be equal to:

- ▶ **0**
- ▶ 0.5
- ▶ 1
- ▶ -1

Question No: 19 (Marks: 1) - Please choose one

_____ If
risk and return combination of any stock is above the SML, what does it mean?

- ▶ It is offering lower rate of return as compared to the efficient stock
- ▶ **It is offering higher rate of return as compared to the efficient stock**
- ▶ Its rate of return is zero as compared to the efficient stock
- ▶ It is offering rate of return equal to the efficient stock

Question No: 20 (Marks: 1) - Please choose one

_____ An
arbitrage opportunity exists if an investor can construct a _____ investment
portfolio that will yield a sure profit.

- ▶ **Positive**
- ▶ Negative
- ▶ Zero
- ▶ All of the given options

Question No: 21 (Marks: 1) - Please choose one

_____ Which of the following factors might affect stock returns?

- ▶ The business cycle
- ▶ Interest rate fluctuations
- ▶ Inflation rates
- ▶ **All of the given options**

Question No: 22 (Marks: 1) - Please choose one

_____ If
arbitrage opportunities are to be ruled out, what would be the expected excess return
of each well-diversified portfolio?

- ▶ Inversely proportional to the risk-free rate
- ▶ **Inversely proportional to its standard deviation**
- ▶ Proportional to its standard deviation
- ▶ Proportional to its beta coefficient

Question No: 23 (Marks: 1) - Please choose one

Which of the following represent all Risk –Return Combinations for the efficient portfolios
in the capital market?

- ▶ **Parachute graph**
- ▶ CML straight line equation
- ▶ Security market line
- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

What should be used to calculate the proportional amount of equity financing
employed by a firm?

- ▶ The common stock equity account on the firm's balance sheet
- ▶ **The sum of common stock and preferred stock on the balance sheet**
- ▶ The book value of the firm
- ▶ The current market price per share of common stock times the number of shares

Outstanding

Question No: 25 (Marks: 1) - Please choose one

Which of the following is the market for short term debt?

- ▶ **Money market**
- ▶ Capital market
- ▶ Real asset market
- ▶ Equity market

Question No: 26 (Marks: 1) - Please choose one

Bonds are issued in the market at _____.

- ▶ Premium
- ▶ Discount
- ▶ **Both premium and discount**
- ▶ None of the given options

Question No: 27 (Marks: 1) - Please choose one

_____ Why debt is a less costly source of fund?

- ▶ **Because additional interest creates a new form of tax shield**
- ▶ Because additional money creates a new form of tax shield
- ▶ Because banks extend loan at lower interest rates
- ▶ None of the given options

Question No: 28 (Marks: 1) - Please choose one

Which of the following is as EBIT?

- ▶ Funds provided by operations
- ▶ Earnings before taxes
- ▶ Net income
- ▶ **Operating profit**

Question No: 29 (Marks: 1) - Please choose one

Calculate the degree of operating leverage (DOL) at 400,000 units of quantity sold. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates selling each unit for Rs.25 with variable costs of Rs.5 per unit.

- ▶ **3.33**
- ▶ 1.25
- ▶ 1.14
- ▶ There is not sufficient information provided to calculate the degree of operating leverage (DOL).

Question No: 30 (Marks: 1) - Please choose one

_____ A
firm has a DOL of 3.5 at Q units. What does this tell us about the firm?

- ▶ If sales rise by 3.5% at the firm, then EBIT will rise by 1%
- ▶ If EBIT rises by 3.5% at the firm, then EPS will rise by 1%
- ▶ If EBIT rises by 1% at the firm, then EPS will rise by 3.5%
- ▶ **If sales rise by 1% at the firm, then EBIT will rise by 3.5%**

Question No: 31 (Marks: 1) - Please choose one

Which of the following represents financial leverage?

- ▶ **Use of more debt capital to increase profit**
- ▶ Debt is not used in capital to increase profit
- ▶ High degree of solvency
- ▶ Low degree of solvency

Question No: 32 (Marks: 1) - Please choose one

Which of the following best describes the statement; "The value of an asset is preserved regardless of the nature of the claims against it"?

- ▶ Law of diminishing marginal returns
- ▶ Law of conservation of value
- ▶ Law of return on equity
- ▶ **Law of return on assets**

Question No: 33 (Marks: 1) - Please choose one

_____ Firm
ABC has Rs.5 million in outstanding debt, currently has 200,000 shares outstanding priced at Rs.60 a share, and has a borrowing rate of 10%. If the firm's return on equity is 15%, what is the firm's WACC?

- ▶ 5.00%
- ▶ **3.23%**
- ▶ 4.25%
- ▶ 2.16%

Question No: 34 (Marks: 1) - Please choose one

Which of the following statements regarding the M&M Propositions without taxes is true?

- ▶ The total value of the firm depends on how cash flows are divided up between stockholders and bondholders, under M&M Proposition I.
- ▶ The firm's capital structure is relevant under M&M Proposition I.
- ▶ The cost of equity depends on the firm's business risk but not its financial risk, under M&M Proposition II.
- ▶ **The cost of equity rises as the firm increases its use of debt financing under M&M Proposition II.**

Question No: 35 (Marks: 1) - Please choose one

Which one of the following is correct for the spot exchange rate?

- ▶ This is the rate today for exchanging one currency for another for immediate delivery
- ▶ **This is the rate today for exchanging one currency for another at a specific future date**
- ▶ This is the rate today for exchanging one currency for another at a specific location on a specific future date
- ▶ This is the rate today for exchanging one currency for another at a specific location for immediate delivery

Question No: 36 (Marks: 1) - Please choose one

_____ The restructuring of a firm should be undertaken, when:

- ▶ **The restructuring is expected to create value for shareholders**
- ▶ The restructuring is expected to increase earnings per share next year
- ▶ The restructuring is expected to increase the firm's market share power in industry
- ▶ The current employees will receive additional stock options to align employee interest

Question No: 37 (Marks: 1) - Please choose one

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

- ▶ Joint venture
- ▶ **Leveraged buyout (LBO)**
- ▶ Spin-off
- ▶ Consolidation

Question No: 38 (Marks: 1) - Please choose one

What is the economic order quantity for an automobile dealer selling 2,000 cars per year, at a cost of Rs.750 per order, and a carrying cost of Rs.300 per automobile?

- ▶ 40 cars
- ▶ 71 cars
- ▶ **100 cars**
- ▶ 126 cars

Question No: 39 (Marks: 1) - Please choose one

As the amount of _____ increases the present value of net tax-shield benefits of debt increases.

- ▶ **Debt**

- ▶ Common equity
- ▶ Preferred equity
- ▶ Assets

Question No: 40 (Marks: 1) - Please choose one

_____ Why
the present value of the costs of financial distress increases with increases in the debt ratio?

- ▶ Expected return on assets increases
- ▶ Present value of the interest tax shield is greater
- ▶ Equity tax shield is depleted
- ▶ **Probability of default and/or bankruptcy is greater**

Question No: 41 (Marks: 5)

_____ **What are the real markets effects of leverage on WAAC? (Answer the question in bulleted form only).**

Answer: Real Markets Effects of leverage on WACC:

- Increase in leverage causes a a large increase in cost of equity
- Increase in leverage causes relatively small increase in cost of debt as compared to cost of equity
- As leverage increases WACC 1st falls because of tax saving shield.
- With further increase in leverage WACC fall to its minimum point which is the optimal point for capital structure
- Further increase in leverage causes increase in WACC because of bankruptcy risk

Question No: 42 (Marks: 5)

_____ Suppose a Firm ABC has Total Assets of Rs.1000 and is 100% Equity based (i.e. Un-levered). There were 10 equal Owners and 5 of them want to leave. So the Firm takes a Bank Loan of Rs.500 (at 10%pa Mark-up) and pays back the Equity Capital to the 5 Owners who are leaving. Now, half of the Equity Capital has been replaced with a Loan from a Bank (i.e. Debt). What impact does this have on ROE?

Answer: As the firm replaces equity with debt it is increasing financial leverage which is a cause of financial risk. The impact of debt on ROE is that ROE will increase but with the greater uncertainty hence greater will be the risk.

Question No: 43 (Marks: 10)

Stock X has a beta of 0.5, stock Y has a beta of 1.0, and stock Z has a beta of 1.25. The risk free rate is 10% and the expected market return is 18%.

- a. Find the expected return on stock X
- b. Find the expected return on stock Y
- c. Find the expected return on stock Z
- d. Suppose that you construct a portfolio consisting of 40% X, 20% Y and 40% Z. What is the beta of the portfolio? <http://vustudents.ning.com>

Answer:

a. $r_M = 18\%$

$r_{RF} = 10\%$

$\beta = 0.5$

$r = r_{RF} + (r_M - r_{RF}) \beta$

$= 10\% + (18\% - 10\%) 0.5$

$= 10\% + 4\%$

$= 14\%$

b. $r_M = 18\%$

$r_{RF} = 10\%$

$\beta = 1.00$

$r = r_{RF} + (r_M - r_{RF}) \beta$

$$= 10\% + (18\% - 10\%) 1.00$$

$$= 10\% + 8\%$$

$$= 18\%$$

$$c. \quad r_M = 18\%$$

$$r_{RF} = 10\%$$

$$\beta = 1.25$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 10\% + (18\% - 10\%) 1.25$$

$$= 10\% + 10\%$$

$$= 20\%$$

$$d. \quad \text{Beta of portfolio} = \beta_P = X \beta_X + Y \beta_Y + Z \beta_Z$$

$$= (40/100)0.5 + (20/100)1.0 + (40/100)1.25$$

$$= 0.4 \times 0.5 + 0.2 \times 1.0 + 0.4 \times 1.25$$

$$= 0.2 + 0.2 + 0.5$$

$$= 0.9$$

Question No: 44 (Marks: 10)

_____ The ABC company is in the 35% marginal tax bracket. The current market value of the firm is Rs. 12 million. If there are no costs to bankruptcy:

 What will be ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of five years bonds at 12 % interest rate? What will be the value of the firm?

ANSWER: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 5 yrs = 5(35 % of 24000)

$$= 5(24000 \times 35/100)$$

$$= 5 \times 8400$$

$$= 42000$$

 What will ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of seven years bonds at 12 % interest rate? What will be the value of the firm?

Answer: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 7 yrs = 7(35 % of 24000)

$$= 7(24000 \times 35/100)$$

$$= 7 \times 8400$$

$$= 58800$$

Question No: 45 (Marks: 10)

Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations	Expected return on market portfolio	Risk- free rate	Beta
1	16%	12%	1.00
2	18	8	0.80
3	15	14	0.70
4	17	13	1.20
5	20	15	1.60

What generalization can you make?

ANSWER: Required return= $r = r_{RF} + (r_M - r_{RF}) \beta$

Where r_{RF} = risk free return

r_M = expected return on market

β = beta of stock

1. $r_M = 16\%$
 $r_{RF} = 12\%$

$\beta = 1.00$

$$\begin{aligned}
 r &= r_{RF} + (r_M - r_{RF}) \beta \\
 &= 12\% + (16\% - 12\%)1.00 \\
 &= 12\% + 4\% \\
 &= 16\%
 \end{aligned}$$

2. $r_M = 18\%$
 $r_{RF} = 8\%$

$\beta = 0.80$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 8\% + (18\% - 8\%)0.80$$

$$= 8\% + 8\%$$

$$= 16\%$$

3. $r_M = 15\%$
 $r_{RF} = 14\%$

$$\beta = 0.70$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 14\% + (15\% - 14\%)0.70$$

$$= 14\% + 0.70$$

$$= 14.7\%$$

4. $r_M = 17\%$
 $r_{RF} = 13\%$

$$\beta = 1.20$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 13\% + (17\% - 13\%)1.20$$

$$= 13\% + 4.8\%$$

$$= 17.8\%$$

5. $r_M = 20\%$
 $r_{RF} = 15\%$

$$\beta = 1.60$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 15\% + (20\% - 15\%) 1.60$$

$$= 15\% + 8\%$$

$$= 23\%$$

GENERALIZATION: As beta of stock rises the return on stock also rises.

MIDTERM EXAMINATION

Spring 2009

MGT201- Financial Management (Session - 2)**Question No: 1 (Marks: 1) - Please choose one**

_____ Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 2 (Marks: 1) - Please choose one

_____ Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ **One; one**
- ▶ Two; two
- ▶ Two; one

- ▶ Three; one

Question No: 3 (Marks: 1) - Please choose one

_____ The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 4 (Marks: 1) - Please choose one

_____ A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

- ▶ **Probability distribution**
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 5 (Marks: 1) - Please choose one

_____ The present value of growth opportunities (PVGO) is equal to

- I) The difference between a stock's price and its no-growth value per share
- II) The stock's price
- III) Zero if its return on equity equals the discount rate
- IV) The net present value of favorable investment opportunities

► I and IV

► II and IV

► I, III, and IV

► II, III, and IV

Question No: 6 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

☐ ☐ ☐ ☐ ☐ ☐ ► ☐ **The firm can increase market price and P/E by retaining more earnings**

☐ ☐ ☐ ☐ ☐ ☐ ► ☐ The firm can increase market price and P/E by increasing the growth rate

☐ ☐ ☐ ☐ ☐ ☐ ► ☒ **The amount of earnings retained by the firm does not affect market price or the P/E**

☐ ☐ ☐ ☐ ☐ ☐ ► ☐ None of the given options

Question No: 7 (Marks: 1) - Please choose one

Which of the following would tend to reduce a firm's P/E ratio?

☐ ☐ ☐ ☐ ☐ ☐ ► ☐ The firm significantly decreases financial leverage

☐ ☐ ☐ ☐ ☐ ☐ ► ☐ The firm increases return on equity for the long term

☐ ☐ ☐ ☐ ☐ ☐ ► ☒ **The level of inflation is expected to increase to double-digit levels**

□ □ □ □ □ □

Question No: 8

Question No: 9

□ □ □ □ □ □ □

Question No: 10

_____ The value of direct claim security is derived from which of the following?

- ▶ Fundamental analysis
- ▶ **Underlying real asset**
- ▶ Supply and demand of securities in the market
- ▶ All of the given options

Question No: 14 (Marks: 1) - Please choose one

_____ Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ Market value
- ▶ **Intrinsic value**
- ▶ Face value

Question No: 15 (Marks: 1) - Please choose one

_____ How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

Question No: 16 (Marks: 1) - Please choose one

When a bond will sell at a discount?

▶ **The coupon rate is greater than the current yield and the current yield is greater than yield to maturity**

▶ The coupon rate is greater than yield to maturity

▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

▶ The coupon rate is less than the current yield and the current yield is less than yield to maturity

Question No: 17 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

▶ **Pays interest on a regular basis (typically every six months)**

▶ Does not pay interest on a regular basis but pays a lump sum at maturity

▶ Can always be converted into a specific number of shares of common stock in the issuing company

▶ Always sells at par

Question No: 18 (Marks: 1) - Please choose one

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

▶ 10.65%

▶ **10.45%**

▶ 10.95%

▶ 10.52%

Question No: 19 (Marks: 1) - Please choose one

_____ If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

▶ 7.00

▶ 6.53

▶ 8.53

▶ **7.18**

Question No: 20 (Marks: 1) - Please choose one

_____ Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the _____ for the bonds is similar.

▶ Interest rate risk

▶ Market rate

▶ **Coupon rate**

▶ Inflation rate

Question No: 21 (Marks: 1) - Please choose one

_____ When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?

- ▶ **Market interest rate < coupon interest rate, market value of bond is > par value**
- ▶ Market interest rate > coupon interest rate, market value of bond is > par value
- ▶ Market interest rate < coupon interest rate, market value of bond is < par value
- ▶ Market interest rate = coupon interest rate, market value of bond is > par value

Question No: 22 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

- ▶ Market interest rate
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ **All of the given options**

Question No: 23 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

Question No: 24 (Marks: 1) - Please choose one

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

- ▶ **A subordinated debenture**
- ▶ A debenture
- ▶ A junk bond
- ▶ An income bond

Question No: 25 (Marks: 1) - Please choose one

_____ A
12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance.
Which of the following is the most likely call price?

- ▶ Rs. 87
- ▶ **Rs. 90**
- ▶ Rs. 102
- ▶ Rs. 112

Question No: 26 (Marks: 1) - Please choose one

_____ Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ **Indenture**

- ▶ Debenture
- ▶ Bond
- ▶ Bond trustee

Question No: 27 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ Life span of the project
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ **Return on asset**

Question No: 28 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows? <http://vustudents.ning.com>

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ **Modified internal rate of return**
- ▶ Net present value

Question No: 29 (Marks: 1) - Please choose one

_____ Why
net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ **Because it has direct link with shareholders wealth maximization**
- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

Question No: 30 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- ▶ Cash flow from financing activity
- ▶ **Cash flow from operating activity**

- ▶ Cash flow from investing activity
- ▶ All of the given options

Question No: 31 (Marks: 1) - Please choose one

_____ An investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return require by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

Question No: 32 (Marks: 1) - Please choose one

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

- ▶ Rs.253 million
- ▶ **Rs.323 million**
- ▶ Rs.380 million
- ▶ Rs.180 million

Question No: 33 (Marks: 1) - Please choose one

_____ An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ **Rs.154.73**

► **Rs.99.74**

Question No: 34 (Marks: 1) - Please choose one

_____ As interest rates go up, the present value of a stream of fixed cash flows _____.

- **Goes down**
- Goes up
- Stays the same
- Can not be found

Question No: 35 (Marks: 1) - Please choose one

_____ An annuity due is always worth _____ a comparable annuity.

- Less than
- **More than**
- Equal to
- Can not be found

Question No: 36 (Marks: 1) - Please choose one

_____ What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

- Rs.1000
- **Rs.702.40**

▶ **Rs.545.45**

▶ Rs.13,816

Question No: 37 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ A cash outflow to repurchase the firm's own common stock
- ▶ **A cash outflow to lenders as interest**
- ▶ A cash outflow to purchase bonds issued by another company

Question No: 38 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 39 (Marks: 1) - Please choose one

Which of the following statements is the least likely to be correct?

- ▶ A firm that has a high degree of business risk is less likely to want to incur financial risk
- ▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**
- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Question No: 40 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ **The higher the tax rate for a firm, the lower the interest coverage ratio**

Question No: 41 (Marks: 10)

_____ You are a financial analyst for the Hittle Company. The director of capital budgeting has asked you to analyze two proposed capital investments Project X and Project Y. Each project has a cost of Rs. 10,000 and the cost of capital for both projects is 12%. The projects' expected cash flows are as follows:

Year	Expected net cash flows	
	Project X	Project Y
0	(10,000)	(10,000)
1	6,500	3,500

2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

- i. Calculate each project's payback, net present value (NPV), internal rate of return (IRR), and profitability index (PI).
- ii. Which project or projects should be accepted if they are independent?
- iii. Which project should be accepted if they are mutually exclusive?

ANSWER:

1. **Payback: PROJECT X:** Cost of project = Rs. 10,000
Payback period is the time required by the project to recover its costs.

Year 1 the project will recover Rs. 6,500

Year 2 the project will recover Rs 3000

Year 3 project will recover the remaining Rs. 500 in 1st month of 3rd yr.
So payback period for Project X is 2 yrs and 1 month.

PROJECT Y: Cost of project= Rs 10,000

Year 1 project will recover Rs 3,500

Year 2 project will recover Rs 3,500

Year 3 project will recover remaining Rs 3000 in approximately 11 months of 3rd yr.

So payback period of project Y is 2 yrs and 11 months.

2. Net Present Value:

Project X: Initial investment, I_0 = Rs 10,000

Cash flow in yr 1, CF_1 = Rs 6500

Cash flow in yr 2, CF_2 = Rs 3000

Cash flow in yr 3, $CF_3 = \text{Rs } 3000$

Cash flow in yr 4, $CF_4 = \text{Rs } 1000$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 6500/(1.12) + 3000/(1.12)^2 + 3000/(1.12)^3 + 1000/(1.12)^4$$

$$= \text{Rs } 966$$

Project Y: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 3500$

Cash flow in yr 2, $CF_2 = \text{Rs } 3500$

Cash flow in yr 3, $CF_3 = \text{Rs } 3500$

Cash flow in yr 4, $CF_4 = \text{Rs } 3500$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 3500/(1.12) + 3500/(1.12)^2 + 3500/(1.12)^3 + 3500/(1.12)^4$$

$$= \text{Rs } 631$$

3. IRR: Project X: Put $NPV = 0$

$$NPV = -10000 + 6500/(1+i) + 3000/(1+i)^2 + 3000/(1+i)^3 + 1000/(1+i)^4$$

4. Profitability Index:

Project X: PI= $\text{Sum}(CF_t/(1+i)^t)/I_0$

$$= 10,966/10000 = 1.096$$

Project Y : PI= $\text{Sum}(CF_t/(1+i)^t)/I_0$

$$= 10631/10000 = 1.0631$$

Result: Since NPV and PI of project X are higher than that of project Y so Project X will be accepted.

MIDTERM EXAMINATION**Spring 2009****MGT201 - Financial Management (Session - 4)****Time: 60 min****Marks: 50****Question No: 1 (Marks: 1) - Please choose one**

What are the earnings per share (EPS) for a company that earned Rs.100, 000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

▶ **Rs.1.00**

▶ Rs. 6.00

▶ Rs. 0.50

▶ Rs. 6.50

Question No: 2 (Marks: 1) - Please choose one

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

▶ Shareholder; manager

▶ Manager; owner

▶ Accountant; bondholder

▶ **Shareholder; bondholder**

Question No: 3 (Marks: 1) - Please choose one

Which of the following is equal to the average tax rate?

- ▶ **Total tax liability divided by taxable income**
- ▶ Rate that will be paid on the next dollar of taxable income
- ▶ Median marginal tax rate
- ▶ Percentage increase in taxable income from the previous period

Question No: 4 (Marks: 1) - Please choose one

Which of the following would be deductible as an expense on the corporation's income statement?

- ▶ **Interest paid on outstanding bonds**
- ▶ Cash dividends paid on outstanding common stock
- ▶ Cash dividends paid on outstanding preferred stock
- ▶ All of the given options

Question No: 5 (Marks: 1) - Please choose one

_____ In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

- ▶ Its corresponding base year balance sheet item; its corresponding base year income statement item
- ▶ Its corresponding base year income statement item; its corresponding base year balance sheet item
- ▶ Net sales or revenues; total assets
- ▶ **Total assets; net sales or revenues**

Question No: 6 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

- ▶ **Liquidity ratios**
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 7 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 8 (Marks: 1) - Please choose one

Interest paid on the original principal borrowed is often referred to as _____.

- ▶ Compound interest
- ▶ Present value
- ▶ **Simple interest**
- ▶ Future value

Question No: 9 (Marks: 1) - Please choose one

_____ If the following are the balance sheet changes, which one of them would represent use of funds by a company?

- ▶ Rs. 8,950 decrease in net fixed assets
- ▶ Rs. 5,005 decrease in accounts receivable
- ▶ **Rs. 10,001 increase in accounts payable**
- ▶ Rs. 12,012 decrease in notes payable

Question No: 10 (Marks: 1) - Please choose one

_____ In preparing a forecast balance sheet, it is likely that either cash or _____ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

- ▶ Retained earnings
- ▶ Accounts receivable
- ▶ Shareholders' equity

► **Notes payable (short-term borrowings)**

Question No: 11 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

► **Rs.5,850**

► Rs.4,872

► Rs.6,725

► Rs.1,842

Question No: 12 (Marks: 1) - Please choose one

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8%.

► **Rs.680.58 (714)**

► Rs.1,462.23

► Rs.322.69

► Rs.401.98

Question No: 13 (Marks: 1) - Please choose one

_____ As interest rates go up, the present value of a stream of fixed cash flows _____.

► **Goes down**

► Goes up

► Stays the same

- ▶ Can not be found

Question No: 14 (Marks: 1) - Please choose one

_____ The benefit we expect from a project is expressed in terms of:

- ▶ **Cash in flows**
- ▶ Cash out flows
- ▶ Cash flows
- ▶ None of the given options

Question No: 15 (Marks: 1) - Please choose one

_____ A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ **Project A & B**

Question No: 16 (Marks: 1) - Please choose one

_____ If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ▶ Interpolation
- ▶ Dividing 100,000 by 36,000
- ▶ **Dividing 36,000 by 100,000**
- ▶ Insufficient information

Question No: 17 (Marks: 1) - Please choose one

_____ In which of the following situations you can expect multiple answers of IRR?

- ▶ **More than one sign change taking place in cash flow diagram**
- ▶ There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
- ▶ During the life of project if you have any net cash outflow
- ▶ All of the given options

Question No: 18 (Marks: 1) - Please choose one

_____ Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ **Multiple internal rate of return**

- ▶ Modified internal rate of return
- ▶ Net present value

Question No: 19 (Marks: 1) - Please choose one

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Question No: 20 (Marks: 1) - Please choose one

Which one of the following is **NOT** the disadvantage of the asset with very short life?

- ▶ Money has to be reinvested in some other project with uncertain NPV
- ▶ Money has to be reinvested in some other project with certain NPV
- ▶ Money has to be reinvested in some other project with return so risky

▶ None of the given options

Question No: 21 (Marks: 1) - Please choose one

_____ You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ Profitability index (PI)
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

Question No: 22 (Marks: 1) - Please choose one

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option
- ▶ Call provision
- ▶ Put option

Question No: 23 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

- ▶ Pays interest on a regular basis (typically every six months)
 - ▶ **Does not pay interest on a regular basis but pays a lump sum at maturity**
 - ▶ Can always be converted into a specific number of shares of common stock in the issuing company
 - ▶ Always sells at par

Question No: 24 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity
- ▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Question No: 25 (Marks: 1) - Please choose one

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

- ▶ **Equal to zero**

- ▶ Greater than zero
- ▶ Equal to the sum of the securities' standard deviations
- ▶ Equal to -1

Question No: 26 (Marks: 1) - Please choose one

How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

Question No: 27 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of hybrid equity?

- ▶ Convertible bonds
- ▶ **Convertible debenture**
- ▶ Common shares
- ▶ Preferred shares

Question No: 28 (Marks: 1) - Please choose one

The value of dividend is derived from which of the following?

- ▶ Cash flow streams

- ▶ Capital gain /loss
- ▶ Difference between buying & selling price
- ▶ **All of the given options**

Question No: 29 (Marks: 1) - Please choose one

How dividend yield on a stock is similar to the current yield on a bond?

- ▶ Both represent how much each security's price will increase in a year
- ▶ Both represent the security's annual income divided by its price
- ▶ Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- ▶ **Both incorporate the par value in their calculation**

Question No: 30 (Marks: 1) - Please choose one

_____ The market capitalization rate on the stock of Fast Growing Company is 20%. The expected ROE is 22% and the expected EPS is Rs. 6.10. If the firm's plowback ratio is 90%, the P/E ratio will be _____.

- ▶ **8.33**
- ▶ 50.0
- ▶ 9.09
- ▶ 7.69

Question No: 31 (Marks: 1) - Please choose one

_____ In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- ▶ Real risk-free rate
- ▶ Risk premium for stocks
- ▶ **Return on assets**
- ▶ Expected inflation rate

Question No: 32 (Marks: 1) - Please choose one

_____ A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

- ▶ An anticipated earnings growth rate which is less than that of the average firm
- ▶ **A dividend yield which is less than that of the average firm**
- ▶ Less predictable earnings growth than that of the average firm
- ▶ Greater cyclicity of earnings growth than that of the average firm

Question No: 33 (Marks: 1) - Please choose one

_____ Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ **Systematic risk**
- ▶ Standard deviation
- ▶ Unsystematic risk
- ▶ Financial risk

Question No: 34 (Marks: 1) - Please choose one

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

- ▶ %
- ▶ Times
- ▶ Number of days
- ▶ All of the given options

Question No: 35 (Marks: 1) - Please choose one

_____ A
well-diversified portfolio is defined as:

▶ **One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero**

- ▶ One that contains securities from at least three different industry sectors
- ▶ A portfolio whose factor beta equals 1.0
- ▶ A portfolio that is equally weighted

Question No: 36 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of unsystematic risk.

- ▶ New competitors
- ▶ New product management
- ▶ **Worldwide inflation**

- ▶ Strikes

Question No: 37 (Marks: 1) - Please choose one

_____ You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

- ▶ Project A dominates project B
- ▶ Project B dominates project A
- ▶ Neither project dominates the other in terms of risk and return
- ▶ **Incomplete information**

Question No: 38 (Marks: 1) - Please choose one

_____ Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ **All of the given options**

Question No: 39 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ **Sunk cost**
- ▶ Opportunity cost
- ▶ Non-cash item

Question No: 40 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot

- ▶ All of the given options

Choose the correct option among the choices given below:

1. Who determine the market price of a share of common stock?
 - a. The board of directors of the firm
 - b. The stock exchange on which the stock is listed
 - c. The president of the company
 - d. **Individuals buying and selling the stock**
2. What should be the focal point of financial management in a firm?
 - a. The number and types of products or services provided by the firm
 - b. The minimization of the amount of taxes paid by the firm
 - c. **The creation of value for shareholders**
 - d. The dollars profits earned by the firm
3. Which of the following would generally have unlimited liability?
 - a. A limited partner in a partnership
 - b. A shareholder in a corporation
 - c. **The owner of a sole proprietorship**
 - d. A member in a limited liability company (LLC)
4. Which of the following is equal to the average tax rate?
 - a. **Total tax liability divided by taxable income**
 - b. Rate that will be paid on the next dollar of taxable income
 - c. Median marginal tax rate
 - d. Percentage increase in taxable income from the previous period
5. Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5 percent. What are its sales?
 - a. Rs.3, 750,000
 - b. **Rs.480, 000**
 - c. Rs.300, 000

d. Rs.1, 500,000

Since $ROI=8\%$ on \$300,000 of assets, then net profit is Rs.24,000 ($8\% \times$ Rs.300,000). Using the net profit and given that the $NPM=5\%$, sales equals Rs.480,000 ($Rs.24,000 / 5\%$).

6. Which of the following would not improve the current ratio?

a. Borrow short term to finance additional fixed assets

b. Issue long-term debt to buy inventory

c. Sell common stock to reduce current liabilities

d. Sell fixed assets to reduce accounts payable

7. With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs.20,000 initial investment?

a. Rs.52,000

b. Rs.93,219

c. Rs.99,061

d. Rs.915,240

$Rs.20,000[e^{(.08 \times 20)}] = Rs.20,000(4.9530324) = Rs.99,061$.

8. In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

a. Fall

b. Rise

c. Remain unchanged

d. Incomplete information

9. Cash budgets are prepared from past:

a. Balance sheets

b. Income statements

c. Income tax and depreciation data

d. None of the given options

10. Which of the following is part of an examination of the sources and uses of funds?

a. A forecasting technique

b. A funds flow analysis

c. A ratio analysis

d. Calculations for preparing the balance sheet

11. An annuity due is always worth _____ a comparable annuity.

a. Less than

b. More than

c. Equal to

d. Can not be found

12. As interest rates go up, the present value of a stream of fixed cash flows _____.

a. Goes down

b. Goes up

c. Stays the same

d. Can not be found

13. ABC company is expected to generate Rs.125 million per year over the next three years in free cash flow. Assuming a discount rate of 10%, what is the present value of that cash flow stream?

a. Rs.375 million

b. Rs.338 million

c. Rs.311 million

d. Rs. 211 million

\$311 million. The cash flow stream would look like this: $125.00 \times 0.9090 =$

113.63; $125.00 \times 0.8264 = 103.30$; $125.00 \times 0.7513 = 93.91$. The sum of the three is

\$310.84, or \$311 million.

14. If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

- a. An increase
- b. A decrease**
- c. No change
- d. Incomplete information

15. In proper capital budgeting analysis we evaluate incremental _____ cash flows.

- a. Accounting
- b. Operating**
- c. Before-tax
- d. Financing

16. A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- a. Payback period
- b. Internal rate of return**
- c. Net present value
- d. Profitability index

17. Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

- a. Magnitude of expected cash flows
- b. Timing of expected cash flows
- c. Both timing and magnitude of cash flows**
- d. None of the given options

18. Which of the followings make the calculation of NPV difficult?

- a. Estimated cash flows
- b. Discount rate
- c. Anticipated life of the business
- d. All of the given options**

19. From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- a. Financing activity
- b. Operating activity**
- c. Investing activity
- d. All of the given options

20. Which of the following technique would be used for a project that has non –normal cash flows?

- a. Multiple internal rate of return**
- b. Modified internal rate of return
- c. Net present value
- d. Internal rate of return

1. Why net present value is the most important criteria for selecting the project in capital budgeting?

- a. Because it has a direct link with the shareholders dividends maximization
- b. Because it helps in quick judgment regarding the investment in real assets
- c. Because we have a simple formula to calculate the cash flows
- d. Because it has direct link with shareholders wealth maximization**

2. In which of the following situations you can expect multiple answers of IRR?

- a. More than one sign change taking place in cash flow diagram
- b. There are two adjacent arrows one of them is downward pointing & the other one is upward pointing

c. During the life of project if you have any net cash outflow

d. All of the given options

3. Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

a. Cash budgeting

b. Capital budgeting

c. Capital expenditure

d. Capital rationing

4. Who is responsible for the decisions relating capital budgeting and capital rationing?

a. Chief executive officer

b. Junior management

c. Division heads

d. All of the given option

5. What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

a. Indenture

b. Debenture

c. Bond

d. Bond trustee

6. _____ is a high-risk, high-yield bond rated below investment grade; while a/ (an) _____ bond has its interest payment contingent on sufficient earnings of the firm.

a. A junk bond; income

b. A subordinated debenture; mortgage

c. A debenture; subordinated debenture

d. An income bond; mortgage

7. _____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt; while a/(an) _____ bond issue is secured by the issuer's property.

a. A subordinated debenture; mortgage

b. A debenture; subordinated debenture

c. A junk bond; income

d. An income bond; junk

8. The value of the bond is NOT directly tied to the value of which of the following assets?

a. Liquid assets of the business

b. Fixed assets of the business

c. Long term assets of the business

d. Real assets of the business

9. The value of a bond is directly derived from which of the following?

a. Cash flows

b. Coupon receipts

c. Par recovery at maturity

d. All of the given options

10. Which of the following is not the present value of the bond?

a. Intrinsic value

b. Fair price

c. Theoretical price

d. Market price

11. The current yield on a bond is equal to _____.

- a. The yield to maturity
 - b. Annual interest divided by the par value
 - c. Annual interest divided by the current market price**
 - d. The internal rate of return
- 12.** A coupon bond pays annual interest, has a par value of Rs.1,000 matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond is?
- a. 10.45%
 - b. 10.95%
 - c. 10.65%**
 - d. 10.52%
- 13.** Which of the following is a characteristic of a coupon bond?
- a. Does not pay interest on a regular basis but pays a lump sum at maturity
 - b. Can always be converted into a specific number of shares of common stock in the issuing company
 - c. Pays interest on a regular basis (typically every six months)**
 - d. Always sells at par
- 14.** Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation? (Comprehension)
- a. Par value
 - b. Intrinsic value
 - c. Market value**
 - d. Face value
- 15.** The value of direct claim security is derived from which of the following?
- a. Fundamental analysis
 - b. Underlying real asset**

c. Supply and demand of securities in the market

d. All of the given options

16. _____ is equal to (common shareholders' equity/common shares outstanding).

a. Liquidation value per share

b. Book value per share

c. Market value per share

d. None of the above

17. Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

a. 4.8%

b. 6.0%

c. 7.2%

d. 3.0%

18. High Tech Chip Company is expected to have EPS in the coming year of Rs. 2.50. The expected ROE is 12.5%. An appropriate required return on the stock is 11%. If the firm has a plowback ratio of 70%, what would be the growth rate of dividends?

a. 6.25%

b. 8.75%

c. 6.60%

d. 7.50%

19. In the dividend discount model, _____ which of the following are **not** incorporated into the discount rate?

a. Real risk-free rate

b. Risk premium for stocks

c. **Return on assets**

d. Expected inflation rate

20. Bond is a type of Direct Claim Security whose value is **NOT** secured by

_____.

a. Tangible assets

b. Fixed assets

c. **Intangible assets**

d. Real assets

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) Total Marks: 1

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) Total Marks: 1

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 4 of 10 (Start time: 04:07:25 PM) Total Marks: 1

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option: <http://vustudents.ning.com>

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

[Reference](#)

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

Its not multiple compounding otherwise use this formula

$P \cdot (1+i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Now from above two ann

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ { [270] - 1 } \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicalities of earnings growth than that of the average firm

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

[Reference](#)

Expected Portfolio Return = _____.

Select correct option:

$r_P = x_A r_A + x_B r_B$

$r_P = x_A r_A - x_B r_B$

$r_P = x_A r_A / x_B r_B$

$r_P = x_A r_A * x_B r_B$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

Debt

Preferred stock

None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

- Unlimited liability
- Single tax filing
- Difficult ownership resale
- Raising capital**

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

- Cash in flows**
- Cash out flows
- Cash flows
- None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

- Sales variability
- Level of fixed operating costs
- Closeness to its operating break-even point**
- Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

- 0.25
- 1.0
- 1.0**
- 0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

- Fixed costs
- Variable costs
- Debt financing
- Common equity financing**

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

- There is less demand for stock than for bonds
- There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Cash budgets are prepared from past:

Select correct option:

Balance sheets

Income statements

Income tax and depreciation data

None of the given options

[The cash budget is prepared from forecasted cash collections and disbursements rather](#)

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model
M&M Proposition I
M&M Proposition II
The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

- Real assets of the business
- Liquid assets of the business**
- Fixed assets of the business
- Long term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk**
- Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

- Bankruptcy costs
- Agency costs
- Transactions costs
- Insurance costs**

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

- Long-term debt
- Preferred stock**

Common stock
None of the given options

According to timing difference problem a good project might suffer from ____ IRR even though its NPV is ____.

Select correct option:

Higher; lower
Lower; Lower
Lower; higher
Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$r_P^* = x_A r_A + x_B r_B$
 $r_P^* = x_A r_A - x_B r_B$
 $r_P^* = x_A r_A / x_B r_B$
 $r_P^* = x_A r_A * x_B r_B$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability
Level of fixed operating costs
Closeness to its operating break-even point
Debt-to-equity ratio

For most firms, P/E ratios and risk ____.

Select correct option:

Will be directly related
Will have an inverse relationship
Will be unrelated
None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger
Larger; Smaller
Smaller; Larger
Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the

basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return

Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

Fundamental analysts

Systems analysts

Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same

I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages
Trade credit
Commercial paper
Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets
Fixed assets
Current assets
Current assets minus current liabilities

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

Increase
Decrease
Either increase or decrease
None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds
Convertible Debenture
Common shares
Preferred shares

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable
Correlated
Highly correlated
Negatively correlated

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical growth of earnings than that of the average firm

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares

The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes
M&M Proposition II without taxes
M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

- Debt capacity
- Debt-service burden**
- Adequacy capacity
- Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

- Net present value, profitability index
- Net present value; internal rate of return**
- Net present value; payback period
- Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

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Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

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Select correct option:

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The market value of any firm is independent of its capital structure

None of the given options

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Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

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Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following has the same meaning as the working capital to financial analyst?

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Total assets

Fixed assets

Current assets

Current assets minus current liabilities

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Select correct option:

- The market value of a firm's common stock is independent of its capital structure
- The market value of a firm's debt is independent of its capital structure
- The market value of any firm is independent of its capital structure**
- None of the given options

How "Shareholder wealth" is represented in a firm?
Select correct option:

- The number of people employed in the firm
- The book value of the firm's assets less the book value of its liabilities
- The market price per share of the firm's common stock**
- The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?
Select correct option:

- Fundamental analysis
- Underlying real asset**
- Supply and demand of securities in the market
- All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
Select correct option:

- Fall
- Rise**
- Remain unchanged
- Incomplete information

Which of the following is an example of restructuring the firm?
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- A new Board of Directors is elected to the firm

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More than

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Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt
By selling common stock

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

because its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

<http://vustudents.ning.com>

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business.

His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an

organization is know as:

a. SWOT Analysis

- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than

its coupon rate, the bond is selling at:

a. A premium

- b. A discount
- c. Cannot be determined without more information

d. Face value

4. Which of the following statements *best* describe the 'Balance Sheet'?

- a. Summarizes the firm's revenues and expenses over an accounting period
- b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
- c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

- a. They measure the amount of debt the firm uses
- b. They measure how effectively a firm is managing its assets
- c. They show the relationship of a firm's cash and other current assets to its current liabilities
- d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

- a. When a project has conventional cash flows patterns
- b. When a project has a non-conventional cash flow pattern
- c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the

same period. This could have happened if:

- a. Cost of goods sold increased relative to sales.
- b. Sales increased relative to expenses.

c. The tax rate has been increased

d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

a. Will not experience any difficulty with its creditors.

b. Has less liquidity than other firms in the industry.

c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

a. Based on their estimated liquidation value

b. Based on their relative importance to the company

c. Based on their actual purchase price

d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

b. Inventory is liquidated for cash.

c. New common stock is sold and used to retire a debt issue.

d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

a. Discounting

b. Compounding

c. The opportunity cost rate

d. Time lines

12. An annuity whose payments occur at the end of each period is called:

a. An opportunity cost annuity.

b. An ordinary annuity

c. An annuity due

d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

a. Yield-to-call

b. Coupon payment

c. Yield-to-maturity

d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

a. Its price will rise

b. Its price will remain unchanged

c. Its price will fall.

d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

a. Primary capital market

b. Primary money market

c. Secondary money market

d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is

less than its coupon rate, the bond will be selling at _____.

a. A discount

b. A premium

c. Par value

d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

a. Price appreciation.

b. A rate of return equal to zero over the life of the bond.

c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

a. Is the discounted value of all future cash dividends

b. Increases when the required rate of return increases, if the dividend is held constant.

c. Is zero if the company pays no dividends

d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its

dividend yield is 8%. At what price is the stock selling?

a. Rs.40

b. Rs.35

c. Rs.30

d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

a. Growth stock

b. Income stock

c. Aggressive stock

d. Defensive stock

Question # 15 of 15 (Start time: 04:21:27 PM) Total Marks: 1

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Question # 9 of 15 (Start time: 05:19:40 PM) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market

Real asset market

Question # 2 of 15 (Start time: 05:26:44 PM) Total Marks: 1

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE = \text{_____}$.

Select correct option:

Net profit margin $\times$ Total asset turnover $\times$ Equity multiplier

Total asset turnover $\times$ Gross profit margin $\times$ Debt ratio
Total asset turnover $\times$ Net profit margin
Total asset turnover $\times$ Gross profit margin $\times$ Equity multiplier

Question # 8 of 15 (Start time: 06:19:14 PM) Total Marks: 1

Total portfolio risk is _____.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

Select correct option:

Operational; financial management

Financial management; accounting

Accounting; financial management

Financial management; operations

If Net Present Value technique is used, what is the minimum acceptance criterion for a project?

Select correct option:

NPV<0

NPV=0

NPV>0

NPV<=0

Question # 14 of 15 (Start time: 09:23:53 PM) Total Marks: 1

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

FINALTERM EXAMINATION**Spring 2009****MGT201- Financial Management (Session - 2)****Question No: 1 (Marks: 1) - Please choose one**

What is the long-run objective of financial management?

- ▶ **Maximize earnings per share**
- ▶ Maximize the value of the firm's common stock
- ▶ Maximize return on investment
- ▶ Maximize market share

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**

- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 3 (Marks: 1) - Please choose one

What is the present value of a Rs.1,000 ordinary annuity that earns 8% annually for an infinite number of periods?

- ▶ Rs.80
- ▶ Rs.800
- ▶ Rs.1,000
- ▶ **Rs.12,500**

Question No: 4 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ Life span of the project
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ **Return on asset**

Question No: 5 (Marks: 1) - Please choose one

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Question No: 6 (Marks: 1) - Please choose one

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If

the yields to maturity on the two bonds change from 12% to 10%, _____.

▶ Both bonds will increase in value, but bond A will increase more than bond B

▶ **Both bonds will increase in value, but bond B will increase more than bond A**

▶ Both bonds will decrease in value, but bond A will decrease more than bond B

▶ Both bonds will decrease in value, but bond B will decrease more than bond A

Question No: 7 (Marks: 1) - Please choose one

Given no change in required returns, the price of a stock whose dividend is constant will_____.

▶ **Remain unchanged**

▶ Decrease over time at a rate of $r\%$

▶ Increase over time at a rate of $r\%$

▶ Decrease over time at a rate equal to the dividend growth rate

Question No: 8 (Marks: 1) - Please choose one

_____ For most firms, P/E ratios and risk_____.

- ▶ **Will be directly related**
- ▶ Will have an inverse relationship
- ▶ Will be unrelated
- ▶ Will both increase as inflation increases

Question No: 9 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is **CORRECT**?

- ▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**
- ▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- ▶ The square root of a portfolio's standard deviation of return equals its variance.
- ▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 10 (Marks: 1) - Please choose one

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 11 (Marks: 1) - Please choose one

The square of the standard deviation is known as the _____.

- ▶ Beta
- ▶ Expected return
- ▶ Coefficient of variation
- ▶ **Variance**

Question No: 12 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 13 (Marks: 1) - Please choose one

_____ An investor was expecting a 18% return on his portfolio with beta of 1.25 before the market risk premium increased from 8% to 10%. Based on this change, what return will now be expected on the portfolio?

- ▶ **22.5%**
- ▶ 20.0%
- ▶ 20.5%
- ▶ 26.0%

Question No: 14 (Marks: 1) - Please choose one

_____ Which of the following is the characteristic of a well diversified portfolio?

- ▶ Its market risk is negligible

- ▶ **Its unsystematic risk is negligible**
- ▶ Its systematic risk is negligible
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

How the beta of a stock can be calculated?

- ▶ By monitoring price of the stock
- ▶ By monitoring rate of return of the stock
- ▶ **By comparing the changes in the stock market price to the changes in the stock market index**
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

Which of the following formula relates beta of the stock to the standard deviation?

- ▶ Covariance of stock with market * variance of the market
- ▶ **Covariance of stock with market / variance of the market**
- ▶ Variance of the market / Covariance of stock with market
- ▶ Slope of the regression line

Question No: 17 (Marks: 1) - Please choose one

_____ A
beta greater than 1 for a stock shows:

- ▶ Stock is relatively more risky than the market
- ▶ If the market moves up by 10% the stock will move up by 12%
- ▶ As the market moves the stock will move in the same direction
- ▶ **All of the given options**

Question No: 18 (Marks: 1) - Please choose one

_____ If
stock is a part of totally diversified portfolio then its company risk
must be equal to:

- ▶ **0**
- ▶ 0.5
- ▶ 1
- ▶ -1

Question No: 19 (Marks: 1) - Please choose one

_____ If
risk and return combination of any stock is above the SML, what
does it mean?

- ▶ It is offering lower rate of return as compared to the efficient stock
- ▶ **It is offering higher rate of return as compared to the efficient stock**
- ▶ Its rate of return is zero as compared to the efficient stock
- ▶ It is offering rate of return equal to the efficient stock

Question No: 20 (Marks: 1) - Please choose one

_____ An
arbitrage opportunity exists if an investor can construct a _____
investment portfolio that will yield a sure profit.

- ▶ **Positive**
- ▶ Negative
- ▶ Zero
- ▶ All of the given options

Question No: 21 (Marks: 1) - Please choose one

_____ Which of the following factors might affect stock returns?

- ▶ The business cycle
- ▶ Interest rate fluctuations
- ▶ Inflation rates

- ▶ All of the given options

Question No: 22 (Marks: 1) - Please choose one

_____ If
arbitrage opportunities are to be ruled out, what would be the
expected excess return of each well-diversified portfolio?

- ▶ Inversely proportional to the risk-free rate
- ▶ **Inversely proportional to its standard deviation**
- ▶ Proportional to its standard deviation
- ▶ Proportional to its beta coefficient

Question No: 23 (Marks: 1) - Please choose one

_____ Which of the following represent all Risk –Return Combinations for the
efficient portfolios in the capital market?

- ▶ **Parachute graph**
- ▶ CML straight line equation
- ▶ Security market line
- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

What should be used to calculate the proportional amount of equity financing employed by a firm?

- ▶ The common stock equity account on the firm's balance sheet
- ▶ **The sum of common stock and preferred stock on the balance sheet**
- ▶ The book value of the firm
- ▶ The current market price per share of common stock times the number of shares

Outstanding

Question No: 25 (Marks: 1) - Please choose one

Which of the following is the market for short term debt?

- ▶ **Money market**
- ▶ Capital market
- ▶ Real asset market
- ▶ Equity market

Question No: 26 (Marks: 1) - Please choose one

Bonds are issued in the market at _____.

- ▶ Premium
- ▶ Discount
- ▶ **Both premium and discount**
- ▶ None of the given options

Question No: 27 (Marks: 1) - Please choose one

Why debt is a less costly source of fund?

- ▶ **Because additional interest creates a new form of tax shield**
- ▶ Because additional money creates a new form of tax shield
- ▶ Because banks extend loan at lower interest rates
- ▶ None of the given options

Question No: 28 (Marks: 1) - Please choose one

Which of the following is as EBIT?

- ▶ Funds provided by operations
- ▶ Earnings before taxes
- ▶ Net income

► **Operating profit**

Question No: 29 (Marks: 1) - Please choose one

Calculate the degree of operating leverage (DOL) at 400,000 units of quantity sold. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates selling each unit for Rs.25 with variable costs of Rs.5 per unit.

► **3.33**

► 1.25

► 1.14

► There is not sufficient information provided to calculate the degree of operating leverage (DOL).

Question No: 30 (Marks: 1) - Please choose one

_____ A firm has a DOL of 3.5 at Q units. What does this tell us about the firm?

► If sales rise by 3.5% at the firm, then EBIT will rise by 1%

► If EBIT rises by 3.5% at the firm, then EPS will rise by 1%

► If EBIT rises by 1% at the firm, then EPS will rise by 3.5%

► **If sales rise by 1% at the firm, then EBIT will rise by 3.5%**

Question No: 31 (Marks: 1) - Please choose one

Which of the following represents financial leverage?

- ▶ **Use of more debt capital to increase profit**
- ▶ Debt is not used in capital to increase profit
- ▶ High degree of solvency
- ▶ Low degree of solvency

Question No: 32 (Marks: 1) - Please choose one

Which of the following best describes the statement; "The value of an asset is preserved regardless of the nature of the claims against it"?

- ▶ Law of diminishing marginal returns
- ▶ Law of conservation of value
- ▶ Law of return on equity
- ▶ **Law of return on assets**

Question No: 33 (Marks: 1) - Please choose one

Firm ABC has Rs.5 million in outstanding debt, currently has 200,000 shares outstanding priced at Rs.60 a share, and has a borrowing rate of 10%. If the firm's return on equity is 15%, what is the firm's WACC?

- ▶ 5.00%
- ▶ **3.23%**

▶ 4.25%

▶ 2.16%

Question No: 34 (Marks: 1) - Please choose one

Which of the following statements regarding the M&M Propositions without taxes is true?

▶ The total value of the firm depends on how cash flows are divided up between stockholders and bondholders, under M&M Proposition I.

▶ The firm's capital structure is relevant under M&M Proposition I.

▶ The cost of equity depends on the firm's business risk but not its financial risk, under M&M Proposition II.

▶ The cost of equity rises as the firm increases its use of debt financing under M&M Proposition II.

Question No: 35 (Marks: 1) - Please choose one

Which one of the following is correct for the spot exchange rate?

▶ This is the rate today for exchanging one currency for another for immediate delivery

▶ This is the rate today for exchanging one currency for another at a specific future date

▶ This is the rate today for exchanging one currency for another at a specific location on a specific future date

► This is the rate today for exchanging one currency for another at a specific location for immediate delivery

Question No: 36 (Marks: 1) - Please choose one

The restructuring of a firm should be undertaken, when:

- **The restructuring is expected to create value for shareholders**
- The restructuring is expected to increase earnings per share next year
- The restructuring is expected to increase the firm's market share power in industry
- The current employees will receive additional stock options to align employee interest

Question No: 37 (Marks: 1) - Please choose one

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

- Joint venture
- **Leveraged buyout (LBO)**
- Spin-off
- Consolidation

Question No: 38 (Marks: 1) - Please choose one

What is the economic order quantity for an automobile dealer selling 2,000 cars per year, at a cost of Rs.750 per order, and a carrying cost of Rs.300 per automobile?

- ▶ 40 cars
- ▶ 71 cars
- ▶ **100 cars**
- ▶ 126 cars

Question No: 39 (Marks: 1) - Please choose one

As the amount of _____ increases the present value of net tax-shield benefits of debt increases.

- ▶ **Debt**
- ▶ Common equity
- ▶ Preferred equity
- ▶ Assets

Question No: 40 (Marks: 1) - Please choose one

Why the present value of the costs of financial distress increases with increases in the debt ratio?

- ▶ Expected return on assets increases
- ▶ Present value of the interest tax shield is greater
- ▶ Equity tax shield is depleted
- ▶ **Probability of default and/or bankruptcy is greater**

Question No: 41 (Marks: 5)

What are the real markets effects of leverage on WAAC? (Answer the question in bulleted form only).

Answer: Real Markets Effects of leverage on WACC:

- Increase in leverage causes a a large increase in cost of equity
- Increase in leverage causes relatively small increase in cost of debt as compared to cost of equity
- As leverage increases WACC 1st falls because of tax saving shield.
- With further increase in leverage WACC fall to its minimum point which is the optimal point for capital structure
- Further increase in leverage causes increase in WACC because of bankruptcy risk

Question No: 42 (Marks: 5)

Suppose a Firm ABC has Total Assets of Rs.1000 and is 100% Equity based (i.e. Un-levered). There were 10 equal Owners and 5 of them want to leave. So the Firm takes a Bank Loan of Rs.500 (at 10%pa

Mark-up) and pays back the Equity Capital to the 5 Owners who are leaving. Now, half of the Equity Capital has been replaced with a Loan from a Bank (i.e. Debt). What impact does this have on ROE?

Answer: As the firm replaces equity with debt it is increasing financial leverage which is a cause of financial risk. The impact of debt on ROE is that ROE will increase but with the greater uncertainty hence greater will be the risk.

Question No: 43 (Marks: 10)

Stock X has a beta of 0.5, stock Y has a beta of 1.0, and stock Z has a beta of 1.25. The risk free rate is 10% and the expected market return is 18%.

- e. Find the expected return on stock X
- f. Find the expected return on stock Y
- g. Find the expected return on stock Z
- h. Suppose that you construct a portfolio consisting of 40% X, 20% Y and 40% Z. What is the beta of the portfolio?

Answer:

a. $r_M = 18\%$

$r_{RF} = 10\%$

$\beta = 0.5$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 10\% + (18\% - 10\%) 0.5$$

$$= 10\% + 4\%$$

$$= 14\%$$

b. $r_M = 18\%$

$$r_{RF} = 10\%$$

$$\beta = 1.00$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 10\% + (18\% - 10\%) 1.00$$

$$= 10\% + 8\%$$

$$= 18\%$$

d. $r_M = 18\%$

$$r_{RF} = 10\%$$

$$\beta = 1.25$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 10\% + (18\% - 10\%) 1.25$$

$$= 10\% + 10\%$$

$$= 20\%$$

d. Beta of portfolio = $\beta_P = X \beta_X + Y \beta_Y + Z \beta_Z$

$$\begin{aligned}
 &= (40/100)0.5 + (20/100)1.0 + (40/100)1.25 \\
 &= 0.4 \times 0.5 + 0.2 \times 1.0 + 0.4 \times 1.25 \\
 &= 0.2 + 0.2 + 0.5 \\
 &= 0.9
 \end{aligned}$$

Question No: 44 (Marks: 10)

The ABC company is in the 35% marginal tax bracket. The current market value of the firm is Rs. 12 million. If there are no costs to bankruptcy:

 What will be ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of five years bonds at 12 % interest rate? What will be the value of the firm?

ANSWER: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 5 yrs = 5(35 % of 24000)

$$= 5(24000 \times 35/100)$$

$$= 5 \times 8400$$

$$= 42000$$

 What will ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of seven years bonds at 12 % interest rate? What will be the value of the firm?

Answer: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 7 yrs = 7(35 % of 24000)

$$= 7(24000 \times 35/100)$$

$$= 7 \times 8400$$

$$= 58800$$

Question No: 45 (Marks: 10)

Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations	Expected return on market portfolio	Risk- free rate	Beta

1	16%	12%	1.00
2	18	8	0.80
3	15	14	0.70
4	17	13	1.20
5	20	15	1.60

What generalization can you make?

ANSWER: Required return= $r = r_{RF} + (r_M - r_{RF}) \beta$

Where r_{RF} = risk free return

r_M = expected return on market

β = beta of stock

$$1. \quad r_M = 16\%$$

$$r_{RF} = 12\%$$

$$\beta = 1.00$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 12\% + (16\% - 12\%) 1.00$$

$$= 12\% + 4\%$$

$$= 16\%$$

2. $r_M = 18\%$

$$r_{RF} = 8\%$$

$$\beta = 0.80$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 8\% + (18\% - 8\%)0.80$$

$$= 8\% + 8\%$$

$$= 16\%$$

3. $r_M = 15\%$

$$r_{RF} = 14\%$$

$$\beta = 0.70$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 14\% + (15\% - 14\%)0.70$$

$$= 14\% + 0.70$$

$$= 14.7\%$$

4. $r_M = 17\%$

$$r_{RF} = 13\%$$

$$\beta = 1.20$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 13\% + (17\% - 13\%)1.20$$

$$= 13\% + 4.8\%$$

$$= 17.8\%$$

5. $r_M = 20\%$
 $r_{RF} = 15\%$

$$\beta = 1.60$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 15\% + (20\% - 15\%) 1.60 \\ &= 15\% + 8\% \\ &= 23\% \end{aligned}$$

GENERALIZATION: As beta of stock rises the return on stock also rises.

FINALTERM EXAMINATION Spring 2009

MGT201- Financial Management (Session - 3)

Question No: 1 (Marks: 1) - Please choose one

Which of the following type of lease is a long-term lease that is not cancelable and its life often matches the useful life of the asset?

- ▶ **A financial**
- ▶ An operating
- ▶ Both financial & operating lease
- ▶ None of the given options

An operating lease refers to a short-term lease that is often cancelable. For example, a lease for office space represents this type of lease where the lease life is less than the useful life of the asset

Question No: 2 (Marks: 1) - Please choose one

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ **Shareholder; manager**
- ▶ Manager; owner
- ▶ Accouor ntant; bondholder
- ▶ Shareholder; bondholder

Question No: 3 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

- ▶ **Rs.5,850**
- ▶ Rs.4,872
- ▶ Rs.6,725
- ▶ Rs.1,842

$$8000/(1.11)^3$$

Question No: 4 (Marks: 1) - Please choose one

What is the present value of Rs.717 to be paid at the end of 2 years if the interest rate is 9%?

▶ **Rs.604**

▶ Rs.417

▶ Rs.715

▶ Rs.556

$$717/(1.09)^2$$

Question No: 5 (Marks: 1) - Please choose one

As interest rates go up, the present value of a stream of fixed cash flows _____.

▶ **Goes down**

▶ Goes up

▶ Stays the same

▶ Can not be found

Question No: 6 (Marks: 1) - Please choose one

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

▶ **Rs.154.73**

▶ Rs.147.36

► Rs.109.39

► Rs.104.72

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^{-8} - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Question No: 7 (Marks: 1) - Please choose one

A capital budgeting technique that is **NOT** considered as discounted cash flow method is:

- **Payback period**
- Internal rate of return
- Net present value
- Profitability index

While the payback period is a simple and straightforward method for analyzing a capital budgeting proposal, it has certain limitations. First and the foremost problem is that it does not take into account the concept of time value of money. The cash flows are considered regardless of the time in which they are occurring.

You must have noticed that we have not used any interest rate while making calculation.

Question No: 8 (Marks: 1) - Please choose one

In which of the following situations you can expect multiple answers of IRR?

- ▶ More than one sign change taking place in cash flow diagram
- ▶ There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
- ▶ During the life of project if you have any net cash outflow
- ▶ **All of the given options**

Question No: 9 (Marks: 1) - Please choose one

The value of a bond is directly derived from which of the following?

- ▶ Cash flows
- ▶ Coupon receipts
- ▶ Par recovery at maturity
- ▶ **All of the given options**

Question No: 10 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

- ▶ Pays interest on a regular basis (typically every six months) sure
- ▶ Does not pay interest on a regular basis but pays a lump sum at maturity
- ▶ Can always be converted into a specific number of shares of common stock in the issuing company
- ▶ Always sells at par

Question No: 11 (Marks: 1) - Please choose one

A zero-coupon bond has a yield to maturity of 9% and a par value of Rs.1,000. If the bond matures in 8 years, the bond should sell for a price of _____ today.

- ▶ Rs. 422.41
- ▶ **Rs. 501.87**
- ▶ Rs. 513.16
- ▶ Rs. 483.49

$$\begin{aligned}\text{price of bond} &= \text{pv of coup pyament} + \text{pv of face vlue} \\ &= 1000 / (1.09)^8\end{aligned}$$

Question No: 12 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is greater than the yield to maturity**
- ▶ The coupon rate is less than the current yield and the current yield is less than yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond

Question No: 13 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

Systematic risk is not avoidable through diversification

Question No: 14 (Marks: 1) - Please choose one

According to the Capital Asset Pricing Model (CAPM), which of the following combination is equal to the expected rate of return on any security?

- ▶ $R_f + \beta[E(R_M)]$
- ▶ $R_f + \beta[E(R_M - R_f)]$
- ▶ $R_f + \beta[E(R_M) - R_f]$
- ▶ $E(R_M) + R_f$

Question No: 15 (Marks: 1) - Please choose one

What is the expected return of a zero-beta security?

- ▶ **The risk-free rate**
- ▶ Zero rate of return
- ▶ A negative rate of return
- ▶ The market rate of return

Question No: 16 (Marks: 1) - Please choose one

How the beta of a stock can be calculated?

- ▶ By monitoring price of the stock
- ▶ By monitoring rate of return of the stock
- ▶ **By comparing the changes in the stock market price to the changes in the stock market index**

- ▶ All of the given options

Question No: 17 (Marks: 1) - Please choose one

If stock is a part of totally diversified portfolio then its company risk must be equal to:

- ▶ 0
- ▶ 0.5
- ▶ 1
- ▶ -1

Question No: 18 (Marks: 1) - Please choose one

How can you limit company-specific risks?

- ▶ Invest in that company's bonds
- ▶ **Invest in a variety of stocks**
- ▶ Invest in securities that do well in a recession
- ▶ Invest in securities that do well in a boom

Rationale: Company-specific risks. Operating risk and price risk are two factors contributing to short-term volatility of individual stocks. Operating risk is the risk to the company as a business and includes anything that might adversely affect the company's profitability. Price risk, meanwhile, has more to do with the company's stock than with its business: How expensive is the stock compared with the company's earnings, cash flow, or sales?

To limit company-specific risk, own a collection of stocks rather than just a few.

Question No: 19 (Marks: 1) - Please choose one

Find the Risk-Free Rate given that the Expected Return on Stock is 12.44%, the Expected Return on the Market Portfolio is 13.4%, and the Beta for Stock is 0.9.

- ▶ 3.8%
- ▶ 4.9%
- ▶ 5.34%
- ▶ 6.38%

Working:

$$r_j = r_f + b(r_m - r_f)$$

Question No: 20 (Marks: 1) - Please choose one

Which of the following can be used to calculate the risk of the larger portfolio?

- ▶ Standard deviation
- ▶ EPS approach
- ▶ **Matrix approach**
- ▶ Gordon's Approach

we can calculate the risk of larger portfolio using the

matrix approach **Question No: 21 (Marks: 1) - Please choose one**

Market risk is measured in terms of the _____ of the market portfolio or index.

- ▶ Variance
- ▶ Covariance
- ▶ **Standard deviation**
- ▶ Correlation coefficient

Ref. Page No.102: Market Risk is measured in terms of the Standard Deviation (or Volatility) of the Market Portfolio or Index

Question No: 22 (Marks: 1) - Please choose one

If 2 stocks move in the same direction together then what will be the correlation coefficient?

- ▶ 0
- ▶ **1.0**
- ▶ -1.0
- ▶ 1.5

Rationale: The strength of the correlation between two variables such as two stock prices is measured by the correlation coefficient. If two stock prices have perfect positive correlation, their correlation coefficient will have the value of +1.

Question No: 23 (Marks: 1) - Please choose one

Which of the following is **NOT** the cost of equity?

- ▶ The minimum rate that a firm should earn on the equity-financed part of an investment

- ▶ **Generally lower than the before-tax cost of debt**
- ▶ It is the most difficult cost component to estimate
- ▶ None of the given options

Question No: 24 (Marks: 1) - Please choose one

Assume management is looking at a set of possible projects with regards to their expected NPV, standard deviation, and management's risk attitude. The firm should attempt to take the set of projects _____.

- ▶ That falls on the lowest indifference curve
- ▶ **That falls on the highest indifference curve**
- ▶ That has the lowest standard deviation
- ▶ That has the highest standard deviation

Rationale: The lowest indifference curve generates the lowest satisfaction by management with that set of projects.

Question No: 25 (Marks: 1) - Please choose one

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

- ▶ The cost of common equity and the cost of debt
- ▶ The cost of common equity and the cost of preferred stock
- ▶ The cost of preferred stock and the cost of debt
- ▶ **The cost of common equity, the cost of preferred stock, and the cost of debt**

Question No: 26 (Marks: 1) - Please choose one

How economic value added (EVA) is calculated?

- ▶ It is the difference between the market value of the firm and the book value of equity
- ▶ **It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge**
- ▶ It is the net income of the firm less a dollar cost that equals the WAAC only
- ▶ None of the given options

Question No: 27 (Marks: 1) - Please choose one

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

- ▶ Sales variability
- ▶ Level of fixed operating costs
- ▶ **Closeness to its operating break-even point**
- ▶ Debt-to-equity ratio

Question No: 28 (Marks: 1) - Please choose one

A firm has a DFL of 3.5 at X dollars. What does this tell us about the firm?

- ▶ If sales rise by 3.5% at the firm, then EBIT will rise by 1%
- ▶ If EBIT rises by 3.5% at the firm, then EPS will rise by 1%
- ▶ **If EBIT rises by 1% at the firm, then EPS will rise by 3.5%**
- ▶ If sales rise by 1% at the firm, then EBIT will rise by 3.5%

Question No: 29 (Marks: 1) - Please choose one

For an all-equity firm, what is the effect of EBIT on the EPS?

- ▶ As earnings before interest and taxes (EBIT) increases, the earnings per share (EPS) increases by the same percent
- ▶ As EBIT increases, the EPS increases by a larger percent
- ▶ As EBIT increases, the EPS decreases
- ▶ None of the given options

Question No: 30 (Marks: 1) - Please choose one

The beta of an all-equity firm is 1.2. If the firm changes its capital structure to 50% debt and 50% equity using 8% debt financing, what will be the beta of the levered firm? The beta of debt is 0.2. (Assume no taxes.)

- ▶ 1.2
- ▶ 2.4
- ▶ 2.2
- ▶ 1.8

Question No: 31 (Marks: 1) - Please choose one

The Serfraz Company is financed by Rs. 2 million (market value) in debt and Rs. 3 million (market value) in equity. The cost of debt is 10% and the cost of equity is 15%. Calculate the weighted average cost of capital. (Assume no taxes.)

- ▶ 10%
- ▶ 15%
- ▶ 13%

► 8%

$$V = 2M + 3M = 10M$$

$$WCCA = 2/5 * 10\% + 3/5 * 15\% = 13\%$$

Question No: 32 (Marks: 1) - Please choose one

Which of the following expressed the proposition that the value of the firm is independent of its capital structure?

- The Capital Asset Pricing Model
- **M&M Proposition I**
- M&M Proposition II
- The Law of One Price

According to M&M's Proposition I, the value of a firm is independent of the financing mix of the firm. Thus, managers cannot alter firm value by their choice of the relative amounts of debt and equity financing. According to M&M, the value of the firm is determined by the size and riskiness of the real cash flows generated by the firm's assets, and not by how these cash flows are divided between the debt and equity stakeholders of the firm. These results hold under the assumption of perfect capital markets with no corporate or personal taxes. Under perfect capital markets, investors face no transactions costs and are symmetrically informed. In addition, firms can borrow and lend at the risk-free rate and can issue securities with no issuance costs

Question No: 33 (Marks: 1) - Please choose one

Which of the following could **NOT** be defined as the capital structure of the Company?

- The firm's mix of Assets and liabilities
- The firm's debt-equity ratio

- ▶ All of the given option
- ▶ **The firm's common stocks only**

Capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities

Question No: 34 (Marks: 1) - Please choose one

Which of the following would express the negative net worth of a firm?

- ▶ Experiencing a business failure
- ▶ A legal bankruptcy
- ▶ Experiencing technical insolvency
- ▶ **Experiencing accounting insolvency**

Question No: 35 (Marks: 1) - Please choose one

Suppose that the Euro is selling at a forward discount in the forward-exchange market. This implies that most likely _____.

- ▶ The Euro has low exchange-rate risk
- ▶ The Euro is gaining strength in relation to the dollar
- ▶ **Interest rates are higher in Euroland than in the United States**
- ▶ Interest rates are declining in Europe

Question No: 36 (Marks: 1) - Please choose one

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

- ▶ Joint venture
- ▶ **Leveraged buyout (LBO)**
- ▶ Spin-off
- ▶ Consolidation

Ref: The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.

Question No: 37 (Marks: 1) - Please choose one

Which of the following is **NOT** a reason that DeStore.com would prefer to pay a stock dividend rather than a regular cash dividend?

- ▶ **It decreases the supply of shares and enhances shareholder wealth**
- ▶ It may conserve cash for other firm needs
- ▶ It will reduce the stock price
- ▶ The investors anticipates that it cannot convey credibly otherwise

Question No: 38 (Marks: 1) - Please choose one

After the payment of a 25% stock dividend, an investor has 500 shares of stock and Rs. 400 total value. What did the investor have prior to the stock dividend?

- ▶ 375 shares of stock and Rs. 375 total value
- ▶ **400 shares of stock and Rs. 400 total value**

- ▶ 400 shares of stock and Rs. 500 total value
- ▶ 625 shares of stock and Rs. 400 total value

because stock dividend did not increase the value. It only increases the number of stocks.

Question No: 39 (Marks: 1) - Please choose one

What is the proportion of assets in debt financing for a firm that expects a 24% return on equity, a 16% return on assets, and a 12% return on debt? Ignore taxes.

- ▶ 54.0%
- ▶ 60.0%
- ▶ **66.7%**
- ▶ 75.0%

Question No: 40 (Marks: 1) - Please choose one

When financial disaster is looming, why management may borrow to invest in projects having a negative expected NPV?

- ▶ The firm's beta is now negative
- ▶ Taxes are no longer a concern
- ▶ The interest tax shield will cover the loan costs
- ▶ **The lender bears all the risk**

Question No: 41 (Marks: 5)

Zee Zee Tops Inc., manufacturer's plaid vinyl and chenille cartops for convertibles. These roofs sell for Rs. 200 each and have an associated variable cost per unit of Rs. 120. Management fully expects next year's sales and NOI to drop sharply, by 20% and 50%, respectively, due to lack of demand (i.e., "consumer resistance"). If Zee Zee's current level of production and sales is 112 car tops, what is the level of fixed costs?

Question No: 42 (Marks: 5)

How working capital affects performance of a business?

Question No: 43 (Marks: 10)

Hoskins Hiking Boot Company is trying to devise an appropriate working capital policy. Their most recent balance sheet is as follows:

ASSETS		LIABILITIES AND OWNER'S EQUITY	
Cash	Rs.30	Accounts payable	Rs.35
Accounts receivable	50	Notes payable	10
Inventories	30	Accruals	5
Current Assets	110	Current liabilities	50
Net fixed assets	150	Mortgage loan (at 13%)	80
		Common equity	130
		Total liabilities &	
Total assets	Rs.260	Owner's equity	Rs.260

You know that net profits in 2004 were Rs.28, 000.

- a. What is Hoskin's current level of gross and net working capital? **(Marks 2)**
- b. What percentage of total assets is invested in gross working capital? **(Marks 1)**
- c. Calculate Hoskins' return on investment. **(Marks 2)**
- d. Suppose the firm reduces cash, accounts receivable, and inventory by 10% and uses the proceeds to pay off some of its accounts payable. Now, assuming all other items remain the same, answer a, b, and c above using these new figures. **(Marks 5)**

ANS

- a. What is Hoskin's current level of gross and net working capital? **(Marks 2)**
- b. What percentage of total assets is invested in gross working capital? **(Marks 1)**
- c. Calculate Hoskins' return on investment. **(Marks 2)**

$$= [\text{Net Income} / \text{Total Assets}] \times 100$$

- d. Suppose the firm reduces cash, accounts receivable, and inventory by 10% and uses the proceeds to pay off some of its accounts payable. Now, assuming all other items remain the same, answer a, b, and c above using these new figures.

(Marks 5)

b. What percentage of total assets is invested in gross working capital?

Question No: 44 (Marks: 10)

Earnings before interest and taxes (EBIT) of Firm is Rs.1000 and Corporate Tax Rate, T_c is 30%

a. If the Firm is 100% Equity (or Un-Levered) and $r_E = 30\%$ then what is the

WACCU of Un-levered Firm?

b. If the Firm takes Rs.1000 Debt at 10% Interest or Mark-up then what is the

WACCL of Levered Firm? (There is no change in return in equity)

c. If the Firm is 100% Equity (or Un-Levered) and $r_E = 30\%$ then what is the

WACCU of Un-levered Firm?

d. If the Firm takes Rs.1000 Debt at 10% Interest or Mark-up then what is the

WACCL of Levered Firm? (There is no change in return in equity)

Question No: 45 (Marks: 10)

If the capital-asset pricing model approach is appropriate, compute the required rate of return for each of the following stocks: Assume a risk-free rate of **.09** and an expected return for the market portfolio of **.12**.

Stock	A	B	C	D	E
Beta	2.0	1.5	1.0	0.7	0.2

FINALTERM EXAMINATION

Spring 2009

Question No: 1 (Marks: 1) - Please choose one

What is the long-run objective of financial management?

- ▶ Maximize earnings per share
- ▶ **Maximize the value of the firm's common stock**
- ▶ Maximize return on investment
- ▶ Maximize market share

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 3 (Marks: 1) - Please choose one

What is the present value of a Rs.1,000 ordinary annuity that earns 8% annually for an infinite number of periods?

- ▶ Rs.80
- ▶ Rs.800
- ▶ Rs.1,000
- ▶ **Rs.12,500**

It will be treated as perpetuity, Formula is as under:

$$\begin{aligned}PV &= PMT/i \\ &= 1000/.08 \\ &= 12,500\end{aligned}$$

Question No: 4 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ Life span of the project
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ **Return on asset**

Question No: 5 (Marks: 1) - Please choose one

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Ref. Page No.58

Question No: 6 (Marks: 1) - Please choose one

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____.

- ▶ Both bonds will increase in value, but bond A will increase more than bond B
- ▶ Both bonds will increase in value, but bond B will increase more than bond A
- ▶ Both bonds will decrease in value, but bond A will decrease more than bond B
- ▶ **Both bonds will decrease in value, but bond B will decrease more than bond A**

Question No: 7 (Marks: 1) - Please choose one

Given no change in required returns, the price of a stock whose dividend is constant will _____.

- ▶ **Remain unchanged**
- ▶ Decrease over time at a rate of $r\%$
- ▶ Increase over time at a rate of $r\%$
- ▶ Decrease over time at a rate equal to the dividend growth rate

Question No: 8 (Marks: 1) - Please choose one

For most firms, P/E ratios and risk _____.

- ▶ Will be directly related
- ▶ **Will have an inverse relationship**
- ▶ Will be unrelated
- ▶ Will both increase as inflation increases

Question No: 9 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is CORRECT?

▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**

▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

▶ The square root of a portfolio's standard deviation of return equals its variance.

▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

[Ref.](#)

Question No: 10 (Marks: 1) - Please choose one

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

▶ A probability distribution

▶ **The expected return**

▶ The standard deviation

▶ Coefficient of variation

[Ref.](#)

Question No: 11 (Marks: 1) - Please choose one

The square of the standard deviation is known as the _____.

▶ Beta

▶ Expected return

▶ Coefficient of variation

▶ **Variance**

[Reference](#)

Question No: 12 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

▶ **Because there is hidden value in each project**

▶ Because they have chance of rapid growth

▶ Because they have invested a lot

▶ All of the given options

Question No: 13 (Marks: 1) - Please choose one

<http://vustudents.ning.com>

An investor was expecting a 18% return on his portfolio with beta of 1.25 before the market risk premium increased from 8% to 10%. Based on this change, what return will now be expected on the portfolio?

- ▶ 22.5%
- ▶ 20.0%
- ▶ **20.5%**
- ▶ 26.0%

Working: 2% rise in market risk premium rise in expected return will be $2 \times \text{beta} = (2 \times 1.25 = 2.50)$
 $18\% + 2.50 = 20.5$

Question No: 14 (Marks: 1) - Please choose one

Which of the following is the characteristic of a well diversified portfolio?

- ▶ Its market risk is negligible
- ▶ **Its unsystematic risk is negligible**
- ▶ Its systematic risk is negligible
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

How the beta of a stock can be calculated?

- ▶ By monitoring price of the stock
- ▶ By monitoring rate of return of the stock
- ▶ **By comparing the changes in the stock market price to the changes in the stock market index**
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

Which of the following formula relates beta of the stock to the standard deviation?

- ▶ Covariance of stock with market * variance of the market
- ▶ **Covariance of stock with market / variance of the market**
- ▶ Variance of the market / Covariance of stock with market
- ▶ Slope of the regression line

The formula for the beta can be written as:

$$\text{Beta} = \text{Covariance (stock versus market returns)} / \text{Variance of the Stock Market}$$

<http://www.money-zine.com/Investing/Stocks/Stock-Beta-and-Volatility/>

Question No: 17 (Marks: 1) - Please choose one

A beta greater than 1 for a stock shows:

- ▶ Stock is relatively more risky than the market
- ▶ If the market moves up by 10% the stock will move up by 12%
- ▶ As the market moves the stock will move in the same direction
- ▶ **All of the given options**

Question No: 18 (Marks: 1) - Please choose one

If stock is a part of totally diversified portfolio then its company risk must be equal to:

- ▶ **0**
- ▶ 0.5
- ▶ 1
- ▶ -1

Question No: 19 (Marks: 1) - Please choose one

If risk and return combination of any stock is above the SML, what does it mean?

- ▶ It is offering lower rate of return as compared to the efficient stock
- ▶ **It is offering higher rate of return as compared to the efficient stock**
- ▶ Its rate of return is zero as compared to the efficient stock
- ▶ It is offering rate of return equal to the efficient stock

Any Stock whose (Risk, Return) Pair lies ABOVE THE SML is offering Excessive Return (above the Market). So, all rational investors will rush to Buy it. The present Price would Rise and the Return (as measured by Capital Gain Yield = $(P_n - P_o) / P_o$) would Fall until it comes back on SML Any Stock whose (Risk, Return) Pair lies BELOW THE SML is offering a Return that is lower than the Market. So, Rational Investors will rush to sell it. The Stock Price would Fall and the Return would Rise until it comes back on the SML.

Question No: 20 (Marks: 1) - Please choose one

An arbitrage opportunity exists if an investor can construct a _____ investment portfolio that will yield a sure profit.

- ▶ Positive
- ▶ Negative
- ▶ **Zero**
- ▶ All of the given options

If the investor can construct a portfolio without the use of the investor's own funds and the portfolio yields a positive profit, arbitrage opportunities exist.

Question No: 21 (Marks: 1) - Please choose one

Which of the following factors might affect stock returns?

- ▶ The business cycle
- ▶ Interest rate fluctuations
- ▶ Inflation rates
- ▶ **All of the given options**

Question No: 22 (Marks: 1) - Please choose one

If arbitrage opportunities are to be ruled out, what would be the expected excess return of each well-diversified portfolio?

- ▶ Inversely proportional to the risk-free rate
- ▶ Inversely proportional to its standard deviation
- ▶ Proportional to its standard deviation
- ▶ **Proportional to its beta coefficient**

Rationale: For each well-diversified portfolio (P and Q, for example), it must be true that $[E(r_p) - r_f] / \beta_p = [E(r_Q) - r_f] / \beta_Q$.

Question No: 23 (Marks: 1) - Please choose one

Which of the following represent all Risk –Return Combinations for the efficient portfolios in the capital market?

- ▶ Parachute graph
- ▶ **CML straight line equation**
- ▶ Security market line

- ▶ All of the given options

The CML gives the risk/return relationship for efficient portfolios.

Question No: 24 (Marks: 1) - Please choose one

What should be used to calculate the proportional amount of equity financing employed by a firm?

- ▶ The common stock equity account on the firm's balance sheet
- ▶ The sum of common stock and preferred stock on the balance sheet
- ▶ The book value of the firm
- ▶ **The current market price per share of common stock times the number of shares**

Outstanding

<http://web.utk.edu/~jwachowi/mcquiz/mc15.html>

Question No: 25 (Marks: 1) - Please choose one

Which of the following is the market for short term debt?

- ▶ **Money market**
- ▶ Capital market
- ▶ Real asset market
- ▶ Equity market

Question No: 26 (Marks: 1) - Please choose one

Bonds are issued in the market at _____.

- ▶ Premium
- ▶ Discount
- ▶ **Both premium and discount**
- ▶ None of the given options

Question No: 27 (Marks: 1) - Please choose one

Why debt is a less costly source of fund?

- ▶ **Because additional interest creates a new form of tax shield**

- ▶ Because additional money creates a new form of tax shield
- ▶ Because banks extend loan at lower interest rates
- ▶ None of the given options

Question No: 28 (Marks: 1) - Please choose one

Which of the following is as EBIT?

- ▶ Funds provided by operations
- ▶ Earnings before taxes
- ▶ Net income
- ▶ **Operating profit**

Question No: 29 (Marks: 1) - Please choose one

Calculate the degree of operating leverage (DOL) at 400,000 units of quantity sold. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates selling each unit for Rs.25 with variable costs of Rs.5 per unit.

- ▶ 3.33
- ▶ 1.25
- ▶ **1.14**

▶ There is not sufficient information provided to calculate the degree of operating leverage (DOL).

$$\text{Sales} = 400,000 * 25 = 10\text{M}$$

$$\text{VC} = 400,000 * 5 = 2\text{M}$$

$$\text{The DOL is } (S - VC)/(S - VC - FC) = (10\text{M} - 2\text{M})/(10\text{M} - 2\text{M} - 1\text{M}) = 1.14$$

Question No: 30 (Marks: 1) - Please choose one

A firm has a DOL of 3.5 at Q units. What does this tell us about the firm?

- ▶ If sales rise by 3.5% at the firm, then EBIT will rise by 1%
- ▶ If EBIT rises by 3.5% at the firm, then EPS will rise by 1%
- ▶ If EBIT rises by 1% at the firm, then EPS will rise by 3.5%
- ▶ **If sales rise by 1% at the firm, then EBIT will rise by 3.5%**

Question No: 31 (Marks: 1) - Please choose one

Which of the following represents financial leverage?

- ▶ **Use of more debt capital to increase profit**
- ▶ Debt is not used in capital to increase profit
- ▶ High degree of solvency
- ▶ Low degree of solvency

Question No: 32 (Marks: 1) - Please choose one

Which of the following best describes the statement; “The value of an asset is preserved regardless of the nature of the claims against it”?

- ▶ Law of diminishing marginal returns
- ▶ **Law of conservation of value**
- ▶ Law of return on equity
- ▶ Law of return on assets

[Reference](#)

Question No: 33 (Marks: 1) - Please choose one

Firm ABC has Rs.5 million in outstanding debt, currently has 200,000 shares outstanding priced at Rs.60 a share, and has a borrowing rate of 10%. If the firm's return on equity is 15%, what is the firm's WACC?

- ▶ 5.00%
- ▶ **3.23%**
- ▶ 4.25%
- ▶ 2.16%

Note: we are not sure about answer of this Question it seems options are not framed properly.

We try to solve it here

In absence of Tax Rate. Values are as follow

$$D = 5M$$

$$E = 200,000 * 60 = 12 M$$

$$D + E = 5 + 12 = 17M$$

$$WCCA = (5/17) * (10\%) + (12/17) * (15\%) = .1350 = 13.50\%$$

Question No: 34 (Marks: 1) - Please choose one

Which of the following statements regarding the M&M Propositions without taxes is true?

- ▶ The total value of the firm depends on how cash flows are divided up between stockholders and bondholders, under M&M Proposition I.
- ▶ The firm's capital structure is relevant under M&M Proposition I.
- ▶ The cost of equity depends on the firm's business risk but not its financial risk, under M&M Proposition II.
- ▶ **The cost of equity rises as the firm increases its use of debt financing under M&M Proposition II.**

<http://vustudents.ning.com>

Question No: 35 (Marks: 1) - Please choose one

Which one of the following is correct for the spot exchange rate?

► **This is the rate today for exchanging one currency for another for immediate delivery**

► This is the rate today for exchanging one currency for another at a specific future date

► This is the rate today for exchanging one currency for another at a specific location on a specific future date

► This is the rate today for exchanging one currency for another at a specific location for immediate delivery

The rate of a foreign-exchange contract for immediate delivery. Also known as "benchmark rates", "straightforward rates" or "outright rates", spot rates represent the price that a buyer expects to pay for a foreign currency in another currency.

Question No: 36 (Marks: 1) - Please choose one

The restructuring of a firm should be undertaken, when:

► **The restructuring is expected to create value for shareholders**

► The restructuring is expected to increase earnings per share next year

► The restructuring is expected to increase the firm's market share power in industry

► The current employees will receive additional stock options to align employee interest

Question No: 37 (Marks: 1) - Please choose one

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

► Joint venture

► **Leveraged buyout (LBO)**

► Spin-off

► Consolidation

Ref: The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.

Question No: 38 (Marks: 1) - Please choose one

What is the economic order quantity for an automobile dealer selling 2,000 cars per year, at a cost of Rs.750 per order, and a carrying cost of Rs.300 per automobile?

- ▶ 40 cars
- ▶ 71 cars
- ▶ **100 cars**
- ▶ 126 cars

$$\text{EOQ} = \sqrt{2 \times 2000 \times 750 / 300} \\ = 100$$

EOQ = square root of (2*annual QTY * Cost of order)/carrying cost per unit for whole year

Question No: 39 (Marks: 1) - Please choose one

As the amount of _____ increases the present value of net tax-shield benefits of debt increases.

- ▶ **Debt**
- ▶ Common equity
- ▶ Preferred equity
- ▶ Assets

Question No: 40 (Marks: 1) - Please choose one

Why the present value of the costs of financial distress increases with increases in the debt ratio?

- ▶ Expected return on assets increases
- ▶ Present value of the interest tax shield is greater
- ▶ Equity tax shield is depleted
- ▶ **Probability of default and/or bankruptcy is greater**

Question No: 41 (Marks: 5)

What are the real markets effects of leverage on WAAC? (Answer the question in bulleted form only).

Answer: Real Markets Effects of leverage on WACC:

- Increase in leverage causes a large increase in cost of equity
- Increase in leverage causes relatively small increase in cost of debt as compared to cost of equity
- As leverage increases WACC 1st falls because of tax saving shield.
- With further increase in leverage WACC fall to its minimum point which is the optimal point for capital structure
- Further increase in leverage causes increase in WACC because of bankruptcy risk

Question No: 42 (Marks: 5)

Suppose a Firm ABC has Total Assets of Rs.1000 and is 100% Equity based (i.e. Un-levered). There were 10 equal Owners and 5 of them want to leave. So the Firm takes a Bank Loan of Rs.500 (at 10%pa Mark-up) and pays back the Equity Capital to the 5 Owners who are leaving. Now, half of the Equity Capital has been replaced with a Loan from a Bank (i.e. Debt). What impact does this have on ROE?

Answer: As the firm replaces equity with debt it is increasing financial leverage which is a cause of financial risk. The impact of debt on ROE is that ROE will increase but with the greater uncertainty hence greater will be the risk.

Question No: 43 (Marks: 10)

Stock X has a beta of 0.5, stock Y has a beta of 1.0, and stock Z has a beta of 1.25. The risk free rate is 10% and the expected market return is 18%.

- a. Find the expected return on stock X
- b. Find the expected return on stock Y
- c. Find the expected return on stock Z
- d. Suppose that you construct a portfolio consisting of 40% X, 20% Y and 40% Z. What is the beta of the portfolio?

Answer:

a. $r_M = 18\%$

$$r_{RF} = 10\%$$

$$\beta = 0.5$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 10\% + (18\% - 10\%) 0.5 \\ &= 10\% + 4\% \\ &= 14\% \end{aligned}$$

b. $r_M = 18\%$

$$r_{RF} = 10\%$$

$$\beta = 1.00$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 10\% + (18\% - 10\%) 1.00 \\ &= 10\% + 8\% \\ &= 18\% \end{aligned}$$

$$1. \quad r_M = 18\%$$

$$r_{RF} = 10\%$$

$$\beta = 1.25$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 10\% + (18\% - 10\%) 1.25$$

$$= 10\% + 10\%$$

$$= 20\%$$

$$d. \quad \text{Beta of portfolio} = \beta_P = X \beta_X + Y \beta_Y + Z \beta_Z$$

$$= (40/100)0.5 + (20/100)1.0 + (40/100)1.25$$

$$= 0.4 \times 0.5 + 0.2 \times 1.0 + 0.4 \times 1.25$$

$$= 0.2 + 0.2 + 0.5$$

$$= 0.9$$

Question No: 44 (Marks: 10)

The ABC company is in the 35% marginal tax bracket. The current market value of the firm is Rs. 12 million. If there are no costs to bankruptcy:

a. What will be ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of five years bonds at 12 % interest rate? What will be the value of the firm?

ANSWER: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 5 yrs = 5(35 % of 24000)

$$= 5(24000 \times 35/100)$$

$$= 5 \times 8400$$

$$= 42000$$

b. What will ABC' annual tax savings from interest deductions be if it issues Rs. 2 million of seven years bonds at 12 % interest rate? What will be the value of the firm?

Answer: Annual Coupon payment each yr = 12% of 2,000,000

$$= 2000000 \times 12/100$$

$$= 24000$$

Tax saving for 7 yrs = 7(35 % of 24000)

$$= 7(24000 \times 35/100)$$

$$= 7 \times 8400$$

$$= 58800$$

Question No: 45 (Marks: 10)

Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations	Expected return on market portfolio	Risk- free rate	Beta
1	16%	12%	1.00
2	18	8	0.80
3	15	14	0.70
4	17	13	1.20
5	20	15	1.60

What generalization can you make?

ANSWER: Required return = $r = r_{RF} + (r_M - r_{RF}) \beta$

Where r_{RF} = risk free return

r_M = expected return on market

β = beta of stock

1. $r_M = 16\%$

$r_{RF} = 12\%$

$$\beta = 1.00$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 12\% + (16\% - 12\%)1.00 \\ &= 12\% + 4\% \\ &= 16\% \end{aligned}$$

2. $r_M = 18\%$

$$r_{RF} = 8\%$$

$$\beta = 0.80$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 8\% + (18\% - 8\%)0.80 \\ &= 8\% + 8\% \\ &= 16\% \end{aligned}$$

3. $r_M = 15\%$

$$r_{RF} = 14\%$$

$$\beta = 0.70$$

$$\begin{aligned} r &= r_{RF} + (r_M - r_{RF}) \beta \\ &= 14\% + (15\% - 14\%)0.70 \\ &= 14\% + 0.70 \end{aligned}$$

$$= 14.7\%$$

4. $r_M = 17\%$

$$r_{RF} = 13\%$$

$$\beta = 1.20$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 13\% + (17\% - 13\%) 1.20$$

$$= 13\% + 4.8\%$$

$$= 17.8\%$$

5. $r_M = 20\%$

$$r_{RF} = 15\%$$

$$\beta = 1.60$$

$$r = r_{RF} + (r_M - r_{RF}) \beta$$

$$= 15\% + (20\% - 15\%) 1.60$$

$$= 15\% + 8\%$$

$$= 23\%$$

GENERALIZATION: As beta of stock rises the return on stock also rises.

FINAL TERM EXAMINATION

Fall 2009

MGT201- Financial Management (Session - 3)

Question No: 1 (Marks: 1) - Please choose one

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: ROE = _____.

▶ **Net profit margin × Total asset turnover × Equity multiplier**

▶ Total asset turnover × Gross profit margin × Debt ratio

▶ Total asset turnover × Net profit margin

▶ Total asset turnover × Gross profit margin × Equity multiplier

$$\text{ROE} = (\text{Profit margin}) \times (\text{Asset turnover}) \times (\text{Equity multiplier}) = (\text{Net profit/Sales}) \times (\text{Sales/Assets}) \times (\text{Assets/Equity})$$

Question No: 2 (Marks: 1) - Please choose one

Which group of ratios shows the extent to which the firm is financed with debt?

▶ Liquidity ratios

▶ **Debt ratios**

▶ Coverage ratios

▶ Profitability ratios

A ratio that indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

Question No: 3 (Marks: 1) - Please choose one

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.

- ▶ Present value
- ▶ Simple interest
- ▶ Future value

▶ **Compound interest**

When the compound interest calculation is used, interest is calculated on the original principal plus all interest accrued to that point in time. Since interest is paid on interest as well as on the amount borrowed, the effective interest rate is greater than the nominal interest rate. The compound interest rate method is often used by banks and savings institutions in determining interest they pay on savings deposits "loaned" to the institutions by the depositors.

Question No: 4 (Marks: 1) - Please choose one

A capital budgeting technique that is NOT considered as discounted cash flow method is:

- ▶ **Payback period**
- ▶ Internal rate of return

- ▶ Net present value
- ▶ Profitability index

Payback cannot be calculated if the positive cash inflows do not eventually outweigh the cash outflows. That is why payback (like IRR) is of little use when used with a pure "costs only" it does not take into account the concept of time value of money. The cash flows are considered regardless of the time in which they are occurring. You must have noticed that we have not used any interest rate while making calculation

Question No: 5 (Marks: 1) - Please choose one

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ **Profitability index (PI)**
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

Question No: 6 (Marks: 1) - Please choose one

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ **Indenture**

- ▶ Debenture
- ▶ Bond
- ▶ Bond trustee

Indenture”: Long Legal Agreement between the Issuer (or Borrower) and the Bond Trustee (Generally a bank or financial institution that acts as the representative for all Bondholders). Basically protects Bondholders from mismanagement by the bond issuer, default, other security holders, etc.

Question No: 7 (Marks: 1) - Please choose one

What is yield to maturity on a bond?

- ▶ It is below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium
- ▶ **The discount rate that will set the present value of the payments equal to the bond price**
- ▶ It is based on the assumption that any payments received are reinvested at the coupon rate
- ▶ None of the given options

Question No: 8 (Marks: 1) - Please choose one

The value of direct claim security is derived from which of the following?

- ▶ Fundamental analysis
- ▶ **Underlying real asset**

- ▶ Supply and demand of securities in the market
- ▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

_____ is equal to (common shareholders' equity/common shares outstanding).

- ▶ **Book value per share**
- ▶ Liquidation value per share
- ▶ Market value per share
- ▶ None of the above

Question No: 10 (Marks: 1) - Please choose one

The present value of growth opportunities (PVGO) is equal to

- I) The difference between a stock's price and its no-growth value per share
- II) The stock's price
- III) Zero if its return on equity equals the discount rate
- IV) The net present value of favorable investment opportunities

► I and IV

► II and IV

► I, III, and IV

► II, III, and IV

Question No: 11 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is **CORRECT**?

A portfolio's expected return is a simple ► weighted average of expected returns of the individual securities comprising the portfolio.

A ► portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The ► square root of a portfolio's standard deviation of return equals its variance.

The ► square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 12 (Marks: 1) - Please choose one

Which of the following is NOT a major cause of unsystematic risk.

New competitors ►

New product management ►

Worldwide inflation ►

Strikes ►

Question No: 13 (Marks: 1) - Please choose one

Which of the following is the characteristic of a well diversified portfolio?

Its ► market risk is negligible

Its unsystematic risk is ► negligible

Its ► systematic risk is negligible

All ► of the given options

Question No: 14 (Marks: 1) - Please choose one

Which of the following factor(s) do **NOT** affects the movements in the market index?

Macroeconomic factors ►

Socio ► political factors

Social factors ►

All ► of the given options

Question No: 15 (Marks: 1) - Please choose one

If stock is a part of totally diversified portfolio then its company risk must be equal to:

0 ►

0.5 ►

1 ►

-1 ►

Question No: 16 (Marks: 1) - Please choose one

How much return would be offered by the stock whose (risk and return) pair lies below the SML?

► No return

► Lower return

► Average return

► Excessive return

Any Stock whose (Risk, Return) Pair lies BELOW THE SML is offering a Return that is lower than the Market.

Question No: 17 (Marks: 1) - Please choose one

Market risk is measured in terms of the _____ of the market portfolio or index.

- ▶ Variance
- ▶ Covariance
- ▶ **Standard deviation**
- ▶ Correlation coefficient

Ref. Page No.102: Market Risk is measured in terms of the Standard Deviation (or Volatility) of the Market Portfolio or Index

Question No: 18 (Marks: 1) - Please choose one

What is the meaning of the term “arbitrage”?

- ▶ Buying low and selling high
- ▶ **Earning risk-free economic profits**
- ▶ Negotiating for favorable brokerage fees
- ▶ Hedging your portfolio through the use of options

Arbitrage is exploiting security mispricings by the simultaneous purchase and sale to gain economic profits without taking any risk. A capital market in equilibrium rules out arbitrage opportunities..

Question No: 19 (Marks: 1) - Please choose one

Which of the following is the market where tangible or physical asset change hand?

- ▶ Money market
- ▶ Capital market
- ▶ **Real asset market**
- ▶ Equity market

Real Assets Markets:

The real asset market where the real or tangible asset or physical asset change hand .for example, you have cotton exchange where raw bales of cotton change hands .computer hardware and many other examples are available. For example, Cotton Exchange, Gold Market, *Kapra* Market Property (land, house, apartment, warehouse) ,Computer hardware, Used Cars, Wheat, Sugar, Vegetables, etc.

Question No: 20 (Marks: 1) - Please choose one

Which of the following is related to the use Lower financial leverage?

- ▶ Fixed cost
- ▶ Variable cost
- ▶ Debt financing
- ▶ **Common equity financing**

Question No: 21 (Marks: 1) - Please choose one

Which of the following will be confronted by the management in deciding the optimal level of current assets for the firm?

► **A trade-off between profitability and risk**

- A trade-off between liquidity and risk
- A trade-off between equity and debt
- A trade-off between short-term versus long-term borrowing

Question No: 22 (Marks: 1) - Please choose one

Which of the following is an example of a natural hedge?

► **The prices and costs are both determined in the global market place.**

- The prices are determined in the global market place and costs are determined in the domestic market place.
- The costs are determined in the global market place and prices are determined in the domestic market place.
- None of the given options is correct

Natural hedges are generated when both prices and costs are determined in similar market places.

Question No: 23 (Marks: 1) - Please choose one

For which of the following strategy; economies of scale, market share dominance, and technological advances are reasons most likely to be offered to justify?

► Financial acquisition

► **Strategic acquisition**

- ▶ Divestiture
- ▶ Supermajority merger approval provision

Question No: 24 (Marks: 1) - Please choose one

Which of the following is incorrect regarding the costs and benefits of holding inventories and cash?

- ▶ The benefit of higher inventory levels is the reduction in order costs associated with restocking and the reduced chances of running out of material.
- ▶ The costs of higher inventory levels are the carrying costs, which include the cost of space, insurance, spoilage, and the opportunity cost of the capital tied up in inventory.
- ▶ Cash provides liquidity, but it doesn't pay interest. Securities pay interest, but you can't use them to buy things.
- ▶ **As financial manager you want to hold cash up to the point where the incremental or marginal benefit of liquidity is 25% higher than the cost of holding cash, that is, the interest that you could earn on securities.**

Question No: 25 (Marks: 1) - Please choose one

Which of the following is the dividend that is normally paid to shareholders?

- ▶ Stock split
- ▶ Stock dividend
- ▶ Extra dividend
- ▶ **Regular dividend**

Question No: 26 (Marks: 1) - Please choose one

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

► Pay back period

- Internal rate of return
- Net present value
- Profitability index

In this technique, we try to figure out how long it would take to recover the invested capital through positive cash flows of the business.

Question No: 27 (Marks: 1) - Please choose one

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

▶ Project A

▶ Project B

▶ Project C

▶ **Project A & B**

Question No: 28 (Marks: 1) - Please choose one

Assume a company had Rs.1 billion in free cash flow last year, and it is expected to grow that cash flow at 3% into perpetuity. Assuming a 9% cost of equity, what is the present value of the company?

▶ **Rs.12.08 billion**

▶ Rs.18.15 billion

▶ Rs.14.16 billion

▶ Rs.16.67 billion

Question No: 29 (Marks: 1) - Please choose one

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

▶ **Rs.680.58**

▶ Rs.1,462.23

▶ Rs.322.69

▶ Rs.401.98

$$FV = PV \times (1 + i)^n$$

$$PV = FV / (1 + i)^n$$

$$= 1000 / (1 + 0.08)^5$$

$$= 680.27$$

Question No: 30 (Marks: 1) - Please choose one

What will be the market risk premium for stock C if the average share of stock C has a required return of 15% and treasury bonds yield is 10%?

▶ 5%

▶ 10%

▶ 15%

▶ 25%

$$15\% - 10\% = 5\%$$

The difference between the expected return on a market portfolio and the risk-free rate.

Question No: 31 (Marks: 1) - Please choose one

All of the following are used in calculation of required return on a particular stock using SML equation **EXCEPT**:

▶ Risk free rate

▶ Market risk premium

▶ Stock's beta

▶ **Stock's price**

Ref: SML Equation (assumes Efficient Stock Pricing, Risk, and Return)

$$r_A = r_{RF} + (r_M - r_{RF}) \beta_A$$

Question No: 32 (Marks: 1) - Please choose one

On which of the following ground, the Arbitrage Pricing Model is different from the Capital Asset Pricing Model?

- ▶ It places more emphasis on market risk
- ▶ It minimizes the importance of diversification
- ▶ **It recognizes multiple systematic risk factors**
- ▶ It recognizes multiple unsystematic risk factors

Question No: 33 (Marks: 1) - Please choose one

According to Traditionalist Theory, when a 100% Equity Firm takes on more and more debt, which of the following phenomenon is observed?

- ▶ Share Price first falls, then reaches minimum and finally rises
- ▶ Share Price first rises, then reaches minimum and finally falls
- ▶ **Share Price first rises, then reaches maximum and finally falls**
- ▶ None of the given options

Ref: Total Market Value of Firm ($V = D + E$ = Market Value of Debt + Market Value of Equity) first rises (because of Interest Tax Shield savings), then reaches a maximum point (optimal capital structure), and finally falls (because of excessive fall in Net Income and Equity value because of interest payments).

Question No: 34 (Marks: 1) - Please choose one

Which of the following formula represents the yield to maturity?

- ▶ Interest yield + Market price
- ▶ Capital gain yield + Book value
- ▶ **Interest yield + Capital gain yield**
- ▶ Market price + Capital gain yield

Ref: $YTM = \text{interest yield} + \text{capital gain yield}$ and it is representative of over all cost of debt in the form of bond.

Question No: 35 (Marks: 1) - Please choose one

Bird-in-the-hand dividend theory was proposed by which of the following?

- ▶ Miller Modigliani
- ▶ **Myron Gordon and John Lintner**
- ▶ Henry Fayol
- ▶ William John and Lehman

Ref: Bird in the Hand (Gordon & Lintner) Theory: from handouts

Question No: 36 (Marks: 1) - Please choose one

XYZ Corporation has offered its shareholders the option that their dividends will be used to purchase additional shares of this corporation. This offer of XYZ Corporation is referred as:

- ▶ Stock repurchases
- ▶ **Dividend reinvestment**

- ▶ Stock dividends
- ▶ Stock splits

Dividend Reinvestment Plans (DRIP)

– Firms give stockholders option to automatically reinvest cash dividends by buying more of the same stock

Question No: 37 (Marks: 1) - Please choose one

When $IRR < WACC$ it means that:

- ▶ Investment is acceptable as required rate of return is less then cost of capital
- ▶ Investment is not acceptable as required rate of return is less then cost of capital
- ▶ Investment is acceptable as required rate of return is equal to the cost of capital
- ▶ None of the given options is true

Ref:

http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=2&ved=0CAoQFjAB&url=http%3A%2F%2Fwww.cob.sfasu.edu%2Fkjones%2FF333%2FLecture%2520Notes%2FBasics%2520of%2520Capital%2520Budgeting.ppt&rct=j&q=%22IRR%3CWACC%22&ei=UxSIS4qZMc_l8Qbg6vWxDw&usg=AFQjCNFrI6KU6H1PTjdaZBcu0zpr0DKnPw

Question No: 38 (Marks: 1) - Please choose one

Which of the following statement depicts the disadvantage of issuing debt?

<http://vustudents.ning.com>

▶ Debt financing leads toward unlimited liability

▶ **If company doesn't pay interest, it can be close down**

▶ It can improve the return on equity

▶ Not fixed payment of interest is required by investors

Ref: Disadvantage of Too Much Debt: Firm becomes more Risky so Lenders and Banks Charge Higher Interest Rates and Greater Chance of Bankruptcy

Question No: 39 (Marks: 1) - Please choose one

The decisions regarding capital structure of a firm are mainly concerned with which of the following?

▶ Assets side of balance sheet

▶ **Liabilities side of balance sheet**

▶ Expense side of profit and loss account

▶ Incomes side of profit and loss account

Ref: Capital Structure and Corporate Financing - Long Term LIABILITIES Side of Balance Sheet

Question No: 40 (Marks: 1) - Please choose one

If Current assets = Rs. 16,000,

Current liabilities= Rs. 10,000

Inventory= Rs. 2500

Calculate quick ratio for the firm?

▶ 1.35

▶ 6.0

▶ 1.60

▶ 0.25

Ref: A desirable quick ratio can range from (0.8:1) to (1.5:1) depending on the nature of the business.

$$= (\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$$

$$= (16000 - 2500) / 10000$$

$$= 1.35$$

Question No: 41 (Marks: 1) - Please choose one

If an investor is risk averse, then which of the following options best suits him?

▶ Debentures

▶ Common stock

▶ T –Bills

▶ Preferred stock

Ref: It is important to remember that we have the option of investing in the T-bill portfolio which offers a risk free rate of return

Question No: 42 (Marks: 1) - Please choose one

Capital structure theory is presented by which of the following?

► Robert Alan Hill

► **Modigliani & Miller**

► Brigham & Houston

► Van Horne & Gittman

Ref: Answer provided by Capital Structure Theory.

Modigliani - Miller:

- Fathers of Corporate Finance

Question No: 43 (Marks: 1) - Please choose one

Which of the following is true regarding financial leverage?

► Whenever a firm's equity increases faster than its debt, financial leverage increases

► **Investors can undo the effects of the firm's capital structure by using home-made leverage**

► Increasing financial leverage will always increase the EPS for stockholders

► The level of financial leverage that produces the minimum firm value is the most beneficial to stockholders

Ref:

http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=1&ved=0CAYQFjAA&url=http%3A%2F%2Fwww.cbpp.uaa.alaska.edu%2Fafrc2%2F325%2Fwje4ch13.rtf&rct=j&q=%22Which+of+the+following+is+true+regarding+financial+leverage%22&ei=sReIS__kLMjR8Abr-5yzDw&usg=AFQjCNHvAT9YesJTLn_T3Eng8LcyMmDGjA

Question No: 44 (Marks: 1) - Please choose one

If a firm wants to use short-term bank loan to finance its temporary current assets and even to buy some of its permanent current inventory, then which of the following policy it is going to adopt?

▶ **Moderate working capital policy**

- ▶ Conservative working capital policy
- ▶ Aggressive working capital policy
- ▶ Any of the given policy

Ref: Moderate

- Balance of Long and Short-term Financing.
- Long Term Financing for Fixed and Permanent Current Assets. Use Short Term Financing for Permanent Current Assets. Use Spontaneous Current Liability Financing for Temporary Current Assets

Question No: 45 (Marks: 1) - Please choose one

Which of the following statements depicts the trade-off theory in a better way?

- ▶ It states a tradeoff between the costs and benefits of debt financing
- ▶ **It states the tradeoff between the debt financing and equity financing**
- ▶ There is tradeoff between assets and liabilities of the firm
- ▶ There is tradeoff between revenues and expenses of the firm

Question No: 46 (Marks: 1) - Please choose one

Modigliani and Miller presented capital structure theory in which of the following years?

▶ 1950

▶ **1958**

▶ 1963

▶ 1965

Ref: Cost of Capital, Corporate Finance and the Theory of Investment”
Revolutionary Article Published by Professors Modigliani & Miller in American
Economic Review in June 1958. Won Nobel Prize

Question No: 47 (Marks: 1) - Please choose one

In which of the following, synergies are not expected?

▶ Operating merger

▶ **Financial merger**

▶ Vertical Merger

▶ Horizontal Merger

Ref: 2 Broad Categories of Mergers:

- Pure Financial Merger - Operations remain independent
- Operating Merger - Operations are Integrated & Changed & Synergies Expected

Question No: 48 (Marks: 1) - Please choose one

“Company X wants to merge with Company Y but Company X’s management is resisting the merger. Company X asks the shareholders of Company Y to tender their shares in exchange the offered price.” This statement refers to which of the following?

▶ Horizontal Merger

▶ Vertical Merger

▶ **Hostile Merger**

▶ Conglomerate Merger

Reference 4 Specific Types of Mergers:

- Horizontal Merger: merger of 2 competitors - can lead to Monopoly
- Vertical Merger: merger of a supplier with a buyer
- Co generic Merger: merger of firms in same industry
- Conglomerate Merger: merger of firms in unrelated industries

Question No: 49 (Marks: 1) - Please choose one

What happens to the total risk when leverage increases at a slow rate?

- ▶ Total risk increases with slow rate than the leverage
- ▶ Total risk increases with decreasing rate
- ▶ Total risk remains the same

▶ **Total risk increases faster than the leverage**

Question No: 50 (Marks: 1) - Please choose one

According to _____, the firm's cost of equity increases with greater debt financing, while the WACC first decreases and then increases.

- ▶ M&M Proposition I with taxes
- ▶ M&M Proposition I without taxes

- ▶ The traditional theory of capital structure

▶ **M&M Proposition II without taxes**

Question No: 51 (Marks: 1) - Please choose one

Which of the following is incorrect regarding Modigliani and Miller's (MM's) famous debt irrelevance proposition?

- ▶ It states that firm value can't be increased by changing capital structure
- ▶ MM show that the extra return and extra risk balance out, leaving shareholders no better or worse off
- ▶ MM's argument rests on simplifying assumptions i.e. efficient capital markets and ignores taxes and costs of financial distress

▶ **Firm value increases when more debt is used**

Ref: As companies take more debt they are exposed to more financial risk.

Question No: 52 (Marks: 1) - Please choose one

Which of the following refers to a unique type of Japanese corporate organization based on a close partnership between government and businesses?

▶ **Keiretsu**

- ▶ Chaebols
- ▶ Lean and mean
- ▶ Options

Ref: A grouping of Japanese firms through historic associations and equity interlocks such that each firm maintains its operational independence (definition of keiretsu)

Question No: 53 (Marks: 1) - Please choose one

Calculate the Forward Rate for Rupee if the interest on 1 Year Maturity in Pakistan is 10% and in Australia is 6% and the current spot rate is Rs.76/ AUD.

- ▶ Rs. 6 per AUD
- ▶ Rs. 76 per AUD
- ▶ **Rs. 79 per AUD**
- ▶ Rs. 456 per AUD

$$\begin{aligned}\text{Ref: } F &= S (\text{Rs. /AUD\$}) (1 + i \text{ Rs.}) / (1 + i \text{ AUD\$}) \\ &= 76(1+0.1) / (1+0.06) \\ &= 78.87\end{aligned}$$

Question No: 54 (Marks: 1) - Please choose one

Calculate the Forward Rate for Rupee using Interest Rate Parity if the interest on 1 Year Maturity in Pakistan is 10% and on Euro is 6% and the forward rate is Rs.124/ EUR.

- ▶ Rs. 6 per EUR
- ▶ Rs. 120 per EUR
- ▶ **Rs. 124 per EUR**
- ▶ Rs. 1240 per EUR

$$\text{Ref: } F = S (\text{Rs. /AUD\$}) (1 + i \text{ Rs.}) / (1 + i \text{ AUD\$})$$

There some technical problem with question

This Question has some technical problem. It should give spot rate if they wanted to calculate forward rate. If we assume 124 as spot rate then its answer for forward rate should be 128.67

How it can be possible with parity of 10% and 6% after one year euro has the same value of 124Rs.

$$\begin{aligned} F &= S (\text{Rs.}) (1 + i_{\text{Rs.}}) / (1 + i_{\text{euro}}) \\ &= (124) (1 + 0.1) / (1 + 0.06) = 128.6792 \end{aligned}$$

or if we assume it ask us to calculate the spot Rate and 124 is assumed as forward rate in that case answer could be 120

comments from:

Question No: 55 (Marks: 3)

Tax shield for the calculation of cost of debt but not for the calculation of the equity stock. Why? Give reason.

Because you can get tax exemption on the interest payment, in case of debt financing. But you are not entitled for any Tax shield in case of equity.

Rd (1- T)

Comments Solution Team

Question No: 56 (Marks: 5)

Ahsan Enterprises, an all-equity firm, is considering a proposal of new capital investment. Analysis has indicated that the proposed investment has a beta of 0.5 and will generate an expected return of 7%. The firm currently has a required return of 10.75% and a beta of 1.25. The investment, if undertaken, will double the firm's total assets.

Requirement:

If r_{RF} is 7% and the market risk premium is 3%, should the firm undertake the investment?

Beta = .5

Expected Rate of return = 7%

Required rate of return = 10.75

Beta = 1.25%

Ahsan Enterprises uses only equity capital, so its cost of equity is also its corporate cost of capital, or WACC.

WACC = 10.75 %

“The investment, if undertaken, will double the firm's total assets” tells us that exactly same amount will be injected

So after the injection of new investment with beta of .5, impact on overall beta will be

$$.5 * (1.25) + .5*(.5) = .875$$

Now we will calculate the Required Rate of return with new beta

$RR = WACC = \text{risk free rate of return} + (\text{Market rate of return} - \text{risk free rate of return}) * \text{beta}$

$$WACC = 7\% + (7\% - 3\%)*.875 = 10.50\%$$

$$= .5*10.50 + .5*7 =$$

Due to new investment cost of capital reduced from 10.75% to 10.50%

Overall expected rate of return must be more than 10.50% but new investment is giving us the expected rate of return of 7%

Now we will see expected return after injection of new investment

$$.5(10.75) + .5(7) = 8.87\%$$

as it is less than 10.50 so we should drop it.

Comments Team: we have given more steps just to clear the concept you can short the answer also.

Question No: 57 (Marks: 5)

Mergers can be classified in two broad categories i.e. Financial and Operating merger. Differentiate between these two.

Financial Merger	Operating Merger
The operations remains independent	The operations are integrated and changed and synergies expected.

Question No: 58 (Marks: 10)

Using the Capital Asset Pricing Model (CAPM), determine the required return on equity for the following situations:

Situations	Expected return on market portfolio	Risk- free rate	Beta
1	16%	12%	1.00
2	18%	8%	0.80
3	15%	14%	0.70

What generalization can you make?

Required Rate of return = risk free rate of return + (market return- risk free rate)*
beta

1. $= 12\% + (16\% - 12\%) * 1 = 16\%$
2. $= 8\% + (18\% - 8\%) * .8 = 16\%$
3. $= 14\% + (15\% - 14\%) * .7 = 14.7\%$

Generalization: as beta of 1 in case of our security No.1 It is fully diversified and its return is 16% which exactly equal to market portfolio return. Any value of beta above the 1 can increase the rate of return but same it will increase the Risk as well.

Comments Team

Question No: 59 (Marks: 10)

What are stock dividends and stock splits? Explain with the help of examples and how do these affect stock prices?

(3+3+4 marks)

Stock Dividend: They are used to control the share price if it rises too fast. They bring share price down to within an optimal price range so that more investors can afford to trade in it and trading volume rises.

Example: Company offers 10% stock dividend to all shareholders. It means that if you own 100 shares than company will give you 10 more shares free of cost. Number of shares increases but total value of firm is unchanged.

Stock Split: They are used to share price if it rises too fast. Number of share outstanding increase. They are used to increase Float.

Example: Company with 1000 shares outstanding to outside shareholders declares 2-for-1 stock split. Means that the number of shares outstanding will increase to 2000 shares (i.e. 100% increase). Number of shares rises but firm value unchanged.

Effect of Stock Dividend and Stock Splits on prices:

Prices rises immediately afterwards because investors take them to be positive signals about the company's future. But if company does not declares higher earnings and dividends in near future, price will come back down again.

FINALTERM EXAMINATION**Fall 2009****MGT201- Financial Management (Session - 3)****Marks: 87****Question No: 1 (Marks: 1) - Please choose one**Which of the following would **NOT** improve the current ratio?

- ▶ **Borrow short term to finance additional fixed assets**
- ▶ Issue long-term debt to buy inventory
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

Question No: 2 (Marks: 1) - Please choose one

Which group of ratios measures how effectively the firm is using its assets?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ **Coverage ratios**

- Activity ratios

Question No: 3 (Marks: 1) - Please choose one

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs. 20, 000 you would expect to earn around _____ in interest.

- Rs.840

- **Rs.858**

- Rs.1,032

- Rs.1,121

Question No: 4 (Marks: 1) - Please choose one

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1, 500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

- **Rs.700 Rs.500 Rs.300**

- Rs.300 Rs.500 Rs.700

- ▶ Rs.500 Rs.500 Rs.500
- ▶ Any of the above, since they each sum to Rs.1,500

Question No: 5 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from an "operating activity"?

- ▶ **Cash outflow to the government for taxes**
- ▶ Cash outflow to shareholders as dividends
- ▶ Cash inflow to the firm from selling new common equity shares
- ▶ Cash outflow to purchase bonds issued by another company

Question No: 6 (Marks: 1) - Please choose one

Which of the following will **NOT** equate the future value of cash inflows to the present value of cash outflows?

- ▶ Discount rate

- ▶ **Profitability index**

- ▶ Internal rate of return
- ▶ Multiple Internal rate of return

Question No: 7 (Marks: 1) - Please choose one

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ **Indenture**
- ▶ Debenture
- ▶ Bond
- ▶ Bond trustee

Question No: 8 (Marks: 1) - Please choose one

_____ is a high-risk, high-yield bond.

- ▶ Zero coupon bond
- ▶ Mortgage bond
- ▶ **Junk bond**
- ▶ Income bond

Question No: 9 (Marks: 1) - Please choose one

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

- ▶ **10.65%**
- ▶ 10.45%
- ▶ 10.95%
- ▶ 10.52%

Question No: 10 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

- ▶ The coupon rate is greater than yield to maturity
- ▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Question No: 11 (Marks: 1) - Please choose one

What is the price of a stock?

- ▶ The future value of all expected future dividends, discounted at the dividend growth rate
- ▶ The present value of all expected future dividends, discounted at the dividend growth rate
- ▶ The future value of all expected future dividends, discounted at the investor's required return
- ▶ **The present value of all expected future dividends, discounted at the investor's required return**

Ref: <http://www.wattpad.com/73486>

Question No: 12 (Marks: 1) - Please choose one

Which of the following combinations will produce the highest growth rate? Assume that the firm's projects offer a higher expected return than the market capitalization rate.

► **A high plowback ratio and a high P/E ratio**

- A high plowback ratio and a low P/E ratio
- A low plowback ratio and a low P/E ratio
- A low plowback ratio and a high P/E ratio

Ref:

<http://74.125.113.132/search?q=cache:yToYf6zHkDgJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap018.RTF+%22A+high+plowback+ratio+and+a+high+P/E+ratio%22&cd=1&hl=en&ct=clnk&gl=pk>

Question No: 13 (Marks: 1) - Please choose one

Diversification can reduce risk by spreading your money across many different _____.

- Investments
- Markets
- Industries

► **All of the given options**

Ref: Diversification:

It states that don't put all your eggs in one basket. Diversification can reduce risk. By spreading your money across many different Investments, Markets, Industries, Countries you can avoid the weakness of each.

Question No: 14 (Marks: 1) - Please choose one

The square of the standard deviation is known as the _____.

- ▶ Beta
- ▶ Expected return
- ▶ Coefficient of variation
- ▶ **Variance**

Ref: /web/Spring+2009_FinalTerm_MGT201_s2_solved

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of systematic risk.

- ▶ A worldwide recession
- ▶ A world war
- ▶ World energy supply
- ▶ **Company management change**

Question No: 16 (Marks: 1) - Please choose one

_____ means expanding the number of investments which cover different kinds of stocks.

- ▶ **Diversification**
- ▶ Standard deviation
- ▶ Variance

- ▶ Covariance

Ref: [/web/mgt201-current-quiz4](#)

Question No: 17 (Marks: 1) - Please choose one

Which of the following would **NOT** be the part of the risk if the stock is a single stock investment?

- ▶ Company specific risk
- ▶ Un-diversifiable risk
- ▶ **Diversifiable risk**
- ▶ Random risk

Ref: In case of portfolio risk we can further made distinction between Diversifiable Risk and Market risk

Question No: 18 (Marks: 1) - Please choose one

To limit volatility what should be the appropriate action?

- ▶ **To diversify**
- ▶ To check the stocks prices daily
- ▶ To own just a few securities
- ▶ Not to invest in risky securities

Question No: 19 (Marks: 1) - Please choose one

In efficient market the stock price depends upon the required return which depends upon _____.

► **Market risk**

- Total risk
- Diversified risk
- Non- Systematic risk

Ref: In Perfect Markets and Efficient Markets where Rational Investors have Diversified Away ALL Company Specific Risk, Value (and Stock Price) depends on Required Return which depends on Market Risk (and not Total Risk).

Question No: 20 (Marks: 1) - Please choose one

Why markets and market returns fluctuate?

- Because of political factors
- Because of social factors
- Because of socio-political factors
- **Because of macro systematic factors**

Question No: 21 (Marks: 1) - Please choose one

The overall (weighted average) cost of capital is composed of weighted averages of which of the following?

- The cost of common equity and the cost of debt

- ▶ The cost of common equity and the cost of preferred stock
- ▶ The cost of preferred stock and the cost of debt
- ▶ **The cost of common equity, the cost of preferred stock, and the cost of debt**

Question No: 22 (Marks: 1) - Please choose one

Which of the following costs would be considered a fixed cost?

- ▶ Raw materials
- ▶ **Depreciation**
- ▶ Bad-debt losses
- ▶ Production labor

Question No: 23 (Marks: 1) - Please choose one

Assume the nominal interest rates (annual) in the country of Freedonia and the United States are 6% and 12% respectively. What is the implied 90-day forward rate if the current spot rate is 5 Freedonian marks (FM) per U.S. dollar?

- ▶ 4.732
- ▶ **4.927**
- ▶ 5.074
- ▶ 5.283 .

$$1 + (.12/4) = 1.03; 1 + (.06/4) = 1.015; FM / 5 = (1.015 / 1.03); FM = 4.927.$$

Question No: 24 (Marks: 1) - Please choose one

A firm that acquires another firm as part of its strategy to sell off assets, cut costs, and operates the remaining assets more efficiently is engaging in _____.

- ▶ A strategic acquisition
- ▶ **A financial acquisition**
- ▶ Two-tier tender offer
- ▶ Shark repellent

Question No: 25 (Marks: 1) - Please choose one

When a firm can acquire another firm?

- ▶ Only by purchasing the assets of the target firm
- ▶ Only by purchasing the common stock of the target firm
- ▶ **By either purchasing the assets or the common equity of the target firm**
- ▶ None of the given options

Question No: 26 (Marks: 1) - Please choose one

Which of the following is **NOT** a type of financial lease arrangement?

- ▶ Sale and leaseback
- ▶ **Indirect leasing**
- ▶ Leveraged leasing
- ▶ All of the given options

Question No: 27 (Marks: 1) - Please choose one

The Board of Directors announces the amount and date of the next dividend on the _____ date; while the _____ date is the first date on which the purchaser of a stock is no longer entitled to the recently declared dividend.

- ▶ Declaration; record
- ▶ Ex-dividend; record
- ▶ **Declaration; ex-dividend**
- ▶ Payment; record

Question No: 28 (Marks: 1) - Please choose one

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

- ▶ **The price should increase by the amount of the dividend**
- ▶ The price should decrease by the amount of the dividend
- ▶ The price should decrease by one-half the amount of the dividend
- ▶ The price should remain constant

Question No: 29 (Marks: 1) - Please choose one

What is the amount of the annual interest tax shield for a firm with Rs. 3 million in debt that pays 12% interest if the firm is in the 35% tax bracket?

- ▶ **Rs.126, 000**
- ▶ Rs.234, 000

► Rs.360, 000

► Rs.1, 050,000

Tax Shield =(income-(debt*interest rate))*tax rate

=(3000000)*12%*35%

Question No: 30 (Marks: 1) - Please choose one

While calculating the Stock Portfolio Risk using 3x3 Matrix Approach, non-diagonal terms shown in Boxes are called:

► Variance

► Coefficient

► **Covariance**

► Correlation

Terms in all other (or NON-DIAGONAL) Boxes are called “**COVARIANCE**” terms which account for affect of one stock’s movement on another stock’s movement

Question No: 31 (Marks: 1) - Please choose one

While calculating the stock beta graphically, the formula to calculate the beta coefficient for stock B is:

► $(r_M^* - r_{RF}) / (r_B^* - r_{RF})$

► **$(r_B^* - r_{RF}) / (r_M^* - r_{RF})$**

► $(r_B^* - r_{RF}) / r_{RF}$

► $(r_B^* - r_{RF}) / r_M^*$

Slope = Beta = $\Delta Y / \Delta X = \% \Delta r_A^* / \% \Delta r_M^*$

$$= A = \text{Risk Relative to Market} = (r_A^* - r_{RF}) / (r_M^* - r_{RF})$$

Question No: 32 (Marks: 1) - Please choose one

While analyzing any portfolio the value of “r” represents which of the following?

- ▶ Internal rate of return
- ▶ Expected rate of return
- ▶ **Required rate of return**
- ▶ Assumed rate of return

Question No: 33 (Marks: 1) - Please choose one

If a stock is part of totally diversified portfolio then which of the following is TRUE for that stock?

- ▶ Stock's total Risk = Company Risk
- ▶ Stock's total Risk = Market Risk
- ▶ **Stock's total Risk = Market Risk + Company Risk**
- ▶ All of the given options

Question No: 34 (Marks: 1) - Please choose one

High uncertainty is associated with which of the following?

- ▶ Preferred stock
- ▶ **Common stock**

- ▶ Bonds
- ▶ T –Bills

Question No: 35 (Marks: 1) - Please choose one

The date on which the names of stockholders in the Stock Transfer Register of firm are documented is referred as:

- ▶ Declaration Date
- ▶ Holder-of-record Date
- ▶ Ex-Dividend Date
- ▶ Payment Date

Firm records names of shareholders in the Stock Transfer Register i.e. Feb 28th 2003.

About 1 month after Declaration Date

Question No: 36 (Marks: 1) - Please choose one

Operating revenue can be calculated from which of the following formulas?

- ▶ Operating Revenue = Fixed cost * Quantity + Variable cost
- ▶ Operating Revenue = Price / Quantity + Variable cost
- ▶ Operating Revenue = Sale price * Quantity
- ▶ Operating Revenue = Variable cost * Quantity / Fixed cost

In accounting and finance, **earnings before interest and taxes (EBIT)** or **operating income** is a measure of a firm's profitability that excludes interest and income tax expenses.^[1]

$EBIT = \text{Operating Revenue} - \text{Operating Expenses (OPEX)} + \text{Non-operating Income}$

$\text{Operating Income} = \text{Operating Revenue} - \text{Operating Expenses}^{[1]}$

Operating income is the difference between operating revenues and operating expenses, but it is also sometimes used as a synonym for **EBIT** and operating profit.^[2] This is true if the firm has no non-operating income.

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is **TRUE** about an aggressive approach to finance working capital?

► Financing seasonal requirements of current assets with short-term debt and permanent requirement of current assets with long term debt

► Financing permanent requirements of current assets with short-term debt and seasonal requirement of current assets with long term debt

► **Financing seasonal as well as permanent requirements of current assets with short-term debt**

► Financing seasonal as well as permanent requirements of current assets with long term debt

Financing some long-term needs with short-term funds.

this is a maturity matching approach and is neither aggressive nor conservative in nature Rather, it is a moderate approach.

Question No: 38 (Marks: 1) - Please choose one

Capital structure theory is presented by which of the following?

► Robert Alan Hill

▶ **Modigliani & Miller**

- ▶ Brigham & Houston
- ▶ Van Horne & Gittman

Question No: 39 (Marks: 1) - Please choose one

All of the following are the examples of permanent financing **EXCEPT:**

- ▶ Common Equity
- ▶ **Current Liabilities**
- ▶ Long-term Loans
- ▶ Bonds

Question No: 40 (Marks: 1) - Please choose one

Which of the followings proposes that the value of the firm is independent of its capital structure?

- ▶ The Capital Asset Pricing Model
- ▶ **M&M capital structure theory**
- ▶ The law of variable proportion
- ▶ The Law of One Price

What Rubinstein generalized, was the most basic of the M&M propositions: The proposition on the irrelevance of capital structure.

Proposition I: “The market value of any firm is independent of its capital structure and is given by capitalizing its expected return at the rate ρ appropriate to its class”, Modigliani and Miller [1958, page 268]. In modern terms, capital structure is irrelevant, and firm value is equal to the present value of the free cash flow discounted at the relevant cost of capital.

Question No: 41 (Marks: 1) - Please choose one

Value of the firm can be calculated with the help of which of the following formulas?

- ▶ Price of a share x No. of shares outstanding
- ▶ Price of a share x debt / equity
- ▶ Price of a share / No. of shares outstanding
- ▶ Price of a share x earnings after tax / equity

Question No: 42 (Marks: 1) - Please choose one

If the sales are expected to be poor in future than management wants to raise capital through which of the following:

- ▶ Debt financing
- ▶ Equity financing (common & preferred stock)
- ▶ Term finance certificates
- ▶ National saving certificates

Question No: 43 (Marks: 1) - Please choose one

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ All of the given options

Question No: 44 (Marks: 1) - Please choose one

Which of the following mathematical expressions depicts divestiture?

- ▶ $5-1=4$
- ▶ $5-1=6$
- ▶ $5+1=6$
- ▶ **None of the given options**

Ref:

“Divestiture” = Reverse Merger. Benefit of Efficient Reallocation of Resources:

$$5 - 1 = 5!$$

It means by selling an inefficient or unproductive unit of the company you can have more value as it saves costs

Question No: 45 (Marks: 1) - Please choose one

Under efficient market, the effect of debt on WACC can be represented with the help of which of the following?

- ▶ **Straight line**
- ▶ U shaped curve

- ▶ Concave
- ▶ Time to time fluctuation

Ref: Effect under Pure MM View (Ideal Efficient Markets): Its assumptions are No

Taxes and No Bankruptcy Costs so Debt increases Risk BUT is also cheaper than Equity. Change in Debt has no effect on WACC and Value of the firm. WACC curve is flat.

Question No: 46 (Marks: 1) - Please choose one

Under traditional view, the effect of debt on WACC can be represented with the help of which of the following?

- ▶ Straight line
- ▶ **U shaped curve**
- ▶ Concave
- ▶ Time to time fluctuation

Ref: Effect under Traditionalist View (Tradeoff Theorists, Real Markets): Combined

Effects of Taxes and Financial Distress / Bankruptcy Costs are a Flat U-Shaped WACC

Curve with a Minimum Point which represents the Optimal Capital Structure (i.e. Best Debt Ratio for the Firm).

Question No: 47 (Marks: 1) - Please choose one

According to the trade off theory, value of the firm rises as a result of

_____.

► Tax saving

- Increase in EPS
- Increase in EBIT
- Saving in cost of debt

Ref: This is the case of pure MM theory where there are no taxes and bankruptcy costs. But in case of trade off theory in reality initially value of the firm rises as there is interest tax saving but with excessive leverage, value of the firm starts declining as interest cost goes very high due to bankruptcy risk.

Question No: 48 (Marks: 1) - Please choose one

Which of the following statements is true about business risk?

- The financial risk of a firm decreases when it takes on a risky project
- The financial risk of a firm increases when it takes on more equity
- The business risk of a firm increases when it takes on a risky project**
- The business risk of a firm increases when it takes on more debt

Ref: <http://74.125.113.132/search?q=cache:JR-lcbO4yXQJ:www.cbpp.uaa.alaska.edu/afrc2/325/rwje4ch13.rtf+%22The+financial+risk+of+a+firm+decreases+when+it+takes+on+a+risky+project%22&cd=1&hl=en&ct=clnk&gl=pk>

Question No: 49 (Marks: 1) - Please choose one

Under Net income approach, which of the following is a correct sequence of calculating cost of capital?

- ▶ Net income – Total firm's market value – WACC
- ▶ Net income – WACC – total firm's market value
- ▶ WACC – Net income – market value of equity
- ▶ Market value of firm – WACC – Net income

Question No: 50 (Marks: 1) - Please choose one

From which of the following equations, net income can be calculated?

▶ **$NI = (EBIT - x_D r_D) (1 - T_c)$**

▶ $NI = (EAT - x_D r_D) (1 - T_c)$

▶ $NI = (EBIT + x_D r_D) (1 - T_c)$

▶ $NI = (EBIT - x_D r_D) / (1 - T_c)$

Ref: $E = \text{Net Income (NI)} / \text{Cost of Equity for levered firm } (r_{E,L})$

Note that $NI = EBIT - \text{Interest} - \text{Tax} = EBT - \text{Tax}$

$NI = (EBIT - x_D r_D) (1 - T_c)$

Question No: 51 (Marks: 1) - Please choose one

Which of the following refers to a unique type of Japanese corporate organization based on a close partnership between government and businesses?

▶ **Keiretsu**

- ▶ Chaebols
- ▶ Lean and mean
- ▶ Options

Ref: www.qualitysolutions.ca/key-quality-terms.htm

Question No: 52 (Marks: 1) - Please choose one

Which of the following is a South Korea type business in that is a conglomerate with Monopoly power?

- ▶ Keiretsu
- ▶ **Chaebols**
- ▶ Lean and mean
- ▶ Options

Ref: Chaebol (alternatively Jaebol, Jaebeol;) refers to a South Korean form of business conglomerate. (form definition of chaebols)

Question No: 53 (Marks: 1) - Please choose one

What is bid rate for currency?

- ▶ **Buying rate for currency**
- ▶ Selling rate of currency
- ▶ Forward rate of currency
- ▶ Ask rate of currency\

Ref: BID Rate = Buying Price for Currency. Example: Bid Rs.60 / US\$1 Means Bank

or Money Changer will Buy (or Bid) one US\$ from you for Rs.60. This also means that

you (the Customer) are Selling Dollar to the Bank. Bid Rs.60 / US\$1 means Bid Rs60 /

Ask US\$1

Question No: 54 (Marks: 1) - Please choose one

What is the primary principle for money changers?

- ▶ Ask rate should be less than bid rate
- ▶ **Ask rate should be greater than bid rate**
- ▶ Ask rate should be equal to bid rate
- ▶ Bid rate should be greater than ask rate

Ref: Fundamental Principle for F/x Traders and “Money Changers”: Buy Low and Sell

High. So, $ASK > BID$ Rate

Question No: 55 (Marks: 3)

Calculate tax shield from the given information.

Corporate tax rate is 35% and amount of debt is Rs. 20, 000 and rate of return is 8%.

$\text{Tax Shield} = (\text{income} - (\text{debt} * \text{interest rate})) * \text{tax rate}$

$\text{Tax shield} = (20,000 * 8\%) * 35\%$

$= 560 \text{ Rs}$

Question No: 56 (Marks: 5)

How can a manager calculate the opportunity cost of capital for a project? Give answer in bulleted form only.

Question No: 57 (Marks: 5)

Suppose you are a financial manager of XYZ Corporation and you have been assigned the task to calculate the numerical value of your firm's WACC (Weighted Average Cost of Capital), what procedure would you follow keeping in mind that the firm is using NOI (Net Operating Income) approach?

Question No: 58 (Marks: 10)

Suppose that the risk free rate is 12% and the expected market return is 20%. The FM Corporation has a beta of 0.75 and the Gord Corporation has a beta of 1.25.

- a. Find the expected return on the FM Corporation.
- b. Find the expected return on the Gord Corporation.
- c. Suppose that because of a suddenly unanticipated increase in inflation, the risk free rate raises to 16% and the market risk premium remains at 8%. Find the expected return on of FM and Gord.

Question No: 59 (Marks: 10)

Ammar Watch Company is the renowned ladies watch manufacturers. They are offering watch in the market at a price of Rs. 30. They have estimated that they will manufacture and sale almost 30, 000 watches. Fixed cost for the preparation of

these watches is Rs.150, 000. Variable cost associated with the preparation of these watches is Rs. 20 per watch.

From the above information you are required to calculate the followings:

- **What is the profit or loss for the units of 8, 000 or 18, 000?**
- **Calculate the break even point? (in units and sales)**

FINALTERM EXAMINATION
Fall 2009

Time: 120 min
Marks: 87

Question No: 1 (Marks: 1) - Please choose one

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

▶ **Operational; financial management**

- ▶ Financial management; accounting
- ▶ Accounting; financial management
- ▶ Financial management; operations

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

▶ A low receivables turnover is desirable

▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**

▶ An increase in net profit margin with no change in sales or assets means a weaker ROI

▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 3 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

▶ **Liquidity ratios**

- ▶ Debt ratios
- ▶ Coverage ratios

- ▶ Profitability ratios

Question No: 4 (Marks: 1) - Please choose one

Which group of ratios measures how effectively the firm is using its assets?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Activity ratios**

Question No: 5 (Marks: 1) - Please choose one

Which group of ratios shows the extent to which the firm is financed with debt?

- ▶ Liquidity ratios
- ▶ **Debt ratios**
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 6 (Marks: 1) - Please choose one

Interest payments, principal payments, and cash dividends are _____ the typical budgeting cash-flow analysis because they are _____ cash flows.

- ▶ Included in; financing
- ▶ **Excluded from; financing**
- ▶ Included in; operating
- ▶ Excluded from; operating

Question No: 7 (Marks: 1) - Please choose one

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- ▶ **All of the given options**

Question No: 8 (Marks: 1) - Please choose one

If a company issues bonus shares, what will be its effect on the debt equity ratio?

- ▶ It will improve

- ▶ It will deteriorate
- ▶ **No effect**
- ▶ None of the given options

Question No: 9 (Marks: 1) - Please choose one

For most firms, P/E ratios and risk_____.

- ▶ Will be directly related
- ▶ **Will have an inverse relationship**
- ▶ Will be unrelated
- ▶ Will both increase as inflation increases

Question No: 10 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

Question No: 11 (Marks: 1) - Please choose one

The wider the range of possible outcomes i.e._____.

▶ **The greater the variability in potential Returns that can occur, the greater the Risk**

- ▶ The greater the variability in potential Returns that can occur, the lesser the Risk
- ▶ The greater the variability in potential Returns that can occur, the level of risk remain constant
- ▶ None of the given options

Question No: 12 (Marks: 1) - Please choose one

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%

▶ 4.0%

Question No: 13 (Marks: 1) - Please choose one

Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ **All of the given options**

Question No: 14 (Marks: 1) - Please choose one

The objective of financial management is to maximize _____ wealth.

- ▶ Stakeholders
- ▶ **Shareholders**
- ▶ Bondholders
- ▶ Directors

Question No: 15 (Marks: 1) - Please choose one

Which of the following is correct regarding the opportunity cost of capital for a project?

- ▶ The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.
- ▶ Financial managers use the capital asset pricing model to estimate the opportunity cost of capital
- ▶ The company cost of capital is the expected rate of return demanded by investors in a company.
- ▶ **All of the given options**

Question No: 16 (Marks: 1) - Please choose one

Which of the following is equal to the market risk, beta, of a security?

► **The covariance between the security's return and the market return divided by the variance of the market's returns**

- The covariance between the security and market returns divided by the standard deviation of the market's returns
- The variance of the security's returns divided by the covariance between the security and market returns
- The variance of the security's returns divided by the variance of the market's returns

Question No: 17 (Marks: 1) - Please choose one

If risk and return combination of any stock is above the SML, what does it mean?

- It is offering lower rate of return as compared to the efficient stock
- **It is offering higher rate of return as compared to the efficient stock**
- Its rate of return is zero as compared to the efficient stock
- It is offering rate of return equal to the efficient stock

Question No: 18 (Marks: 1) - Please choose one

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

- Comparable
- Parallel
- Highly correlated
- **Negatively correlated**

Question No: 19 (Marks: 1) - Please choose one

Why common stock of a company must provide a higher expected return than the debt of the same company?

- There is less demand for stock than for bonds
- There is greater demand for stock than for bonds
- **There is more systematic risk involved for the common stock**
- There is a market premium required for bonds

Question No: 20 (Marks: 1) - Please choose one

The ABC Company relies on preferred stock, bonds, and common stock for its long-term financing. Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax component costs of the ABC's long-term financing.

- ▶ 1 = bonds; 2 = common stock; 3 = preferred stock
- ▶ 1 = bonds; 2 = preferred stock; 3 = common stock
- ▶ **1 = common stock; 2 = preferred stock; 3 = bonds**
- ▶ 1 = preferred stock; 2 = common stock; 3 = bonds

Question No: 21 (Marks: 1) - Please choose one

Which of the following is **NOT** a recognized approach for determining the cost of equity?

- ▶ Dividend discount model approach
- ▶ **Before-tax cost of preferred stock plus risk premium approach**
- ▶ Capital-asset pricing model approach
- ▶ Before-tax cost of debt plus risk premium approach

Question No: 22 (Marks: 1) - Please choose one

Which of the following will be confronted by the management in deciding the optimal level of current assets for the firm?

- ▶ **A trade-off between profitability and risk**
- ▶ A trade-off between liquidity and risk
- ▶ A trade-off between equity and debt
- ▶ A trade-off between short-term versus long-term borrowing

Question No: 23 (Marks: 1) - Please choose one

Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate non-spontaneous form for financing the excess seasonal current asset needs?

- ▶ Trade credit
- ▶ 6-month bank notes
- ▶ Accounts payable
- ▶ **Common stock equity**

Question No: 24 (Marks: 1) - Please choose one

Which of the following is the common currency created by the group of European countries?

- ▶ The EU currency
- ▶ The European Union
- ▶ The EMU
- ▶ **The Euro**

Question No: 25 (Marks: 1) - Please choose one

Which of the following statements is most correct as it relates to the recording of a capital lease?

- ▶ The capital lease is shown on the lessee's balance sheet as an asset and amortized over the asset's useful life.
- ▶ **The capital lease is listed as an asset on the lessor's balance sheet and amortized over lease term.**
- ▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the lease period.
- ▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the asset's useful life.

Question No: 26 (Marks: 1) - Please choose one

Which of the following is the dividend that is normally paid to shareholders?

- ▶ Stock split
- ▶ Stock dividend
- ▶ Extra dividend
- ▶ **Regular dividend**

Question No: 27 (Marks: 1) - Please choose one

Which of the following signals is most likely to elicit a decrease in share price for slow growth utility company that currently pays a small dividend?

- ▶ A repurchase of 5% of the firm's stock
- ▶ An unexpected increase in the regular quarterly dividend
- ▶ **An unexpected decrease in the regular quarterly dividend**
- ▶ Borrowing funds in order to pay a cash dividend

Question No: 28 (Marks: 1) - Please choose one

The presence of which of the following costs is **NOT** used as a major argument against the M&M arbitrage process?

- ▶ Transaction costs
- ▶ **Insurance costs**
- ▶ Bankruptcy costs
- ▶ Agency costs

Question No: 29 (Marks: 1) - Please choose one

Which term would most likely be associated with the phrase "actions speak louder than words?"

- ▶ Incentive signaling
- ▶ Shareholder wealth maximization
- ▶ **Financial signaling**
- ▶ Optimal capital structure

Question No: 30 (Marks: 1) - Please choose one

When taxes are considered, the value of a levered firm equals the value of the _____.

- ▶ Unlevered firm
- ▶ Unlevered firm plus the value of the debt
- ▶ **Unlevered firm plus the present value of the tax shield**
- ▶ Unlevered firm plus the value of the debt plus the value of the tax shield

Question No: 31 (Marks: 1) - Please choose one

When financial disaster is looming, why management may borrow to invest in projects having a negative expected NPV?

- ▶ The firm's beta is now negative
- ▶ Taxes are no longer a concern
- ▶ The interest tax shield will cover the loan costs
- ▶ **The lender bears all the risk**

Question No: 32 (Marks: 1) - Please choose one

What is the present value of Rs.6,500 to be paid at the end of 8 years if the interest rate is 10% compounded annually?

- ▶ **Rs.3,032**
- ▶ Rs.3,890
- ▶ Rs.3,190
- ▶ Rs.4,301

Question No: 33 (Marks: 1) - Please choose one

What is the present value of Rs.717 to be paid at the end of 2 years if the interest rate is 9% compounded annually?

- ▶ **Rs.604**
- ▶ Rs.417

- ▶ Rs.715
- ▶ Rs.556

Question No: 34 (Marks: 1) - Please choose one

All of the following are the components of CML (capital market line) equation EXCEPT:

- ▶ Risk free rate of return
- ▶ Risk of the market
- ▶ Risk of stock portfolio
- ▶ **Net present value**

Question No: 35 (Marks: 1) - Please choose one

In NPV (Net Present Value) calculations, which of the following is used?

- ▶ Excepted rate of return
- ▶ **Required rate of return**
- ▶ Both expected rate of return and Required rate of return
- ▶ None of the given options

Question No: 36 (Marks: 1) - Please choose one

If Share A's Beta = +2.0 then it represents which of the following?

- ▶ **Share is twice as risky (or volatile) as the KSE market**
- ▶ Share is exactly as risky (or volatile) as the KSE market
- ▶ Share is half as risky (or volatile) as the KSE market
- ▶ Share would be exactly as volatile as the KSE market BUT in the opposite

way

Question No: 37 (Marks: 1) - Please choose one

Beta coefficient is actually the slope of the line that shows the relationship between which of the following?

- ▶ Stock required rate of return on x-axis and market rate of return on y-axis
- ▶ Stock required rate of return on y-axis and market rate of return on x-axis
- ▶ **Stock expected rate of return on y-axis and market rate of return on x-**

axis

- ▶ Stock required rate of return on y-axis and stock expected rate of return on x-axis

Question No: 38 (Marks: 1) - Please choose one

Which of the following is/are ideal source(s) of capital for profitable firms because of no transaction costs?

- ▶ Sizeable Cash

- ▶ Retained Earnings
- ▶ **Both Sizeable Cash and Retained Earnings**
- ▶ None of the given options

Question No: 39 (Marks: 1) - Please choose one

According to Traditionalist Theory, when an un-leveraged firm takes on more and more debt, which of the following phenomenon is observed?

- ▶ Cost of Capital increases, reaches a minimum point, and then falls
- ▶ **Cost of Capital decreases, reaches a minimum point, and then rises**
- ▶ Cost of Capital increases, reaches a maximum point, and then rises
- ▶ None of the given options

Question No: 40 (Marks: 1) - Please choose one

In the WACC equation ($r_D x_D + r_E x_E + r_P x_P$), x_E represents which of the following?

- ▶ Weight or Fraction of Total Capital value raised from bonds
- ▶ Weight or Fraction of Total Capital value raised from preferred stock
- ▶ **Weight or Fraction of Total Capital value raised from common stock**
- ▶ Weight or Fraction of Total Capital value raised from debentures

Question No: 41 (Marks: 1) - Please choose one

In the WACC equation ($r_D x_D + r_E x_E + r_P x_P$), x_D represents which of the following?

- ▶ **Weight or Fraction of Total Capital value raised from bonds**
- ▶ Weight or Fraction of Total Capital value raised from preferred stock
- ▶ Weight or Fraction of Total Capital value raised from common stock
- ▶ Weight or Fraction of Total Capital value raised from retained earnings

Question No: 42 (Marks: 1) - Please choose one

Which of the following represents the tax shield?

- ▶ **Interest on capital**
- ▶ Dividends to shareholders
- ▶ Retained earnings
- ▶ Establishment expenses

Question No: 43 (Marks: 1) - Please choose one

On declaration date of dividend, if ABC Company announces dividend higher than the previous years, which of the following phenomenon is likely to be observe?

- ▶ Stock price falls
- ▶ **Stock price rises**
- ▶ Stock price remains the same
- ▶ None of the given options

Question No: 44 (Marks: 1) - Please choose one

When $IRR < WACC$ it means that:

- ▶ Investment is acceptable as required rate of return is less then cost of capital
- ▶ **Investment is not acceptable as required rate of return is less then cost of capital**
- ▶ Investment is acceptable as required rate of return is equal to the cost of capital
- ▶ None of the given options is true

Question No: 45 (Marks: 1) - Please choose one

ABC Company moves from a "conservative" working capital policy to an "aggressive" policy. Which of the following results it should expect to achieve?

- ▶ Liquidity to decrease, whereas expected profitability would increase
- ▶ **Expected profitability to increase, whereas risk would decrease**
- ▶ Liquidity would increase, whereas risk would also increase
- ▶ Risk as well as profitability to decrease

Question No: 46 (Marks: 1) - Please choose one

Mr. A, a sole proprietor has purchased the raw material on credit; this transaction has generated which of the following?

- ▶ Permanent Financing
- ▶ **Spontaneous Financing**
- ▶ Short-term Loan
- ▶ All of the given options

Question No: 47 (Marks: 1) - Please choose one

Capital structure that minimizes the WACC is also a structure that maximizes the firm's _____.

- ▶ Earnings before interest & taxes (EBIT)
- ▶ Earning after tax (EAT)
- ▶ **Earning per share (EPS)**
- ▶ Return on equity (ROE)

Question No: 48 (Marks: 1) - Please choose one

In calculations regarding lease, net advantage of leasing is the difference between which of the following?

- ▶ Present value of net cash flows and present value of cost of leasing
- ▶ **Present value of cost of owning the asset and present value of cost of leasing**
- ▶ Present value of cost of owning the asset and present value of net cash flows
- ▶ None of the given options

Question No: 49 (Marks: 1) - Please choose one

A car manufacturing firm buys steel from a steel mill. Both these entities combined together to form a new firm. It is referred to which of the following?

- ▶ Horizontal Merger
- ▶ **Vertical Merger**
- ▶ Congeneric Merger
- ▶ Conglomerate Merger

Question No: 50 (Marks: 1) - Please choose one

Which of the following is a form of divestiture in which a subsidiary or division becomes an independent company?

- ▶ Sell-off
- ▶ **Spin-off**
- ▶ Liquidation
- ▶ Merger

Question No: 51 (Marks: 1) - Please choose one

From which of the following equations, net income can be calculated?

- ▶ **$NI = (EBIT - x_D r_D) (1 - T_c)$**
- ▶ $NI = (EAT - x_D r_D) (1 - T_c)$
- ▶ $NI = (EBIT + x_D r_D) (1 - T_c)$
- ▶ $NI = (EBIT - x_D r_D) / (1 - T_c)$

Question No: 52 (Marks: 1) - Please choose one

Which of the following is the formula to calculate the tax shield?

- ▶ **Corporate tax rate x Market value of debt**
- ▶ Corporate tax rate / Market value of debt
- ▶ Corporate tax rate + Market value of debt
- ▶ Corporate tax rate - Market value of debt

Question No: 53 (Marks: 1) - Please choose one

Which one of the following is correct for the spot exchange rate?

▶ It is the effective exchange rate for a foreign currency for delivery at a specific location on a specific future date

▶ **It is the effective exchange rate for a foreign currency for immediate delivery at a specific location**

▶ It is the effective exchange rate for a foreign currency for delivery at a specific future date

▶ It is the effective exchange rate for a foreign currency for delivery on the current day

Question No: 54 (Marks: 1) - Please choose one

What is the primary principle for money changers?

- ▶ Ask rate should be less than bid rate
- ▶ **Ask rate should be greater than bid rate**
- ▶ Ask rate should be equal to bid rate
- ▶ Bid rate should be greater than ask rate

Question No: 55 (Marks: 3)

If interest tax shields are valuable, why don't all taxpaying firms borrow as much as possible?

A. Tax shield give us benefit up to certain level but as leverage increases Firm becomes more Risky so Lenders and Banks Charge Higher Interest Rates and Greater Chance of Bankruptcy.

Question No: 56 (Marks: 5)

There are different methods to raise capital within the organization. Briefly explain the advantages of equity financing into the business.

A. Equity financing gives the flexibility we don't need to pay fix amount. In case of bond or debt we need to pay fixed interest in case of failure there

is threat of Defaulter. Mostly the advantages of equity finance are reaped by the small business enterprises. In some case debt rate is too high that time equity help you to get cheaper capital financing.

Question No: 57 (Marks: 5)

What is long-term financing? Explain the factors that can affect the decision of a manager while deciding about long term financing?

Long term financing is a kind of financing which is provided for a period of more than one year.

Permanent Financing comes in two forms:

- Long-term Loans - Bonds It has Low Risk for Firm but has High Cost normally more than one year.

- Common Equity or Stock its Less Risk for Firm but Highest Cost.

If a company is using long-term financing it has higher cost of financing due high interest cost of long term loans despite high cost we have low risk, due to surety of access to money for a longer period. Current liabilities as a source of financing are not reliable as you have no surety whether you will have same amount of money available next month for financing or not.

Question No: 58 (Marks: 10)

What is a credit policy and what factors an organization should consider while designing its credit policy and how can a firm use 5/10, net 30 basis and carrying charges in its credit policy?

Credit Policy: It is the credit adjusted given to customer based upon payment history.

Factors considered for credit:

Assessment of Credit-worthiness of each credit customer

Minimize duration of credit and Value.

Give incentives to Customers to pay cash and to pay quickly

Suppose if someone pays later then last date of payment he/she will pay extra 1% etc.

“Sell on 5/10.net 30 basis”

30 basis Means customer will pay full cash value within 30 days. 5/10.net means 5% discount for customers who will pay within 10 days. It will be like incentive to customer who will pay early.

Impost some extra charge in the form of carry charges in case of later payment

Question No: 59 (Marks: 10)

Firms A and B are identical except their use of debt and the interest rates they pay. Firm A has more debt and thus must pay a higher interest rate.

Requirement:

Based on the data given below, how much higher or lower will be the A's ROE that of B, i.e., what is $ROE_A - ROE_B$?

Applicable to Both Firms

Assets Rs. 3,000,000
EBIT Rs.500, 000
Tax rate 35%

Firm A's Data

Debt ratio 70%
Int. rate 12%

Firm LD's Data

Debt ratio 20%
Int. rate 10%

For company A 20% leverage so equity will be 30% of 3,000,000 = 900000

EBIT = 500,000

Interest (12% of 500,000) = (6000)

EBT 494,000

Tax (35% of EBT) (148200)

Net income 345,800

Expected ROE (=NI/Equity) $345,800 / (900000) = 38.42\%$

For company B 20% leverage so equity will be 80% of 3,000,000 = 2400000

EBIT = 500,000

Interest (10% of 500,000) = (5000)

EBT 495,000

Tax (35% of EBT) (148500)

Net income 346,500

Expected ROE (=NI/Equity) $346500 / (2400000) = 14.43\%$

$$ROE_A - ROE_B = 38.42 - 14.43 \\ = 23.99$$

FINALTERM EXAMINATION**Fall 2009****MGT201- Financial Management (Session - 3) Marks: 87****Question No: 1 (Marks: 1) - Please choose one**

ABC's and XYZ's debt-to-total assets ratio is 0.4. What is its debt-to-equity ratio?

- ▶ 0.2
- ▶ 0.77
- ▶ 0.667
- ▶ 0.333

Question No: 2 (Marks: 1) - Please choose one

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ Goes down
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 3 (Marks: 1) - Please choose one

A 5-year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.231.91
- ▶ Rs.184.08
- ▶ Rs.181.62
- ▶ **Rs.170.44**

Question No: 4 (Marks: 1) - Please choose one

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars
- ▶ **In terms of Percentages**
- ▶ Intuitively
- ▶ Logically

Question No: 5 (Marks: 1) - Please choose one

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ Choose all projects with a positive NPV
- ▶ **Group projects together to allocate the funds available and select the group of projects with the highest NPV**

- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

Time: 120 min

Question No: 6 (Marks: 1) - Please choose one

Which of the following is the value of bond that we expect the bond to be?

- ▶ Intrinsic value
- ▶ Fair value
- ▶ **Both intrinsic and fair value**
- ▶ Market price

Question No: 7 (Marks: 1) - Please choose one

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

- ▶ **Equal to zero**
- ▶ Greater than zero
- ▶ Equal to the sum of the securities' standard deviations
- ▶ Equal to -1

Question No: 8 (Marks: 1) - Please choose one

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ **Market value**
- ▶ Intrinsic value
- ▶ Face value

Question No: 9 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is **CORRECT**?

- ▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**
- ▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- ▶ The square root of a portfolio's standard deviation of return equals its variance.
- ▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 10 (Marks: 1) - Please choose one

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 11 (Marks: 1) - Please choose one

The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as _____.

- ▶ A probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ **Coefficient of variation**

Question No: 12 (Marks: 1) - Please choose one

The Higher the Risk of a Share, the _____ its Rate of Return and the _____ its Market Price.

Time: 120 min

- ▶ **Higher; Lower**

- ▶ Lower; Higher
- ▶ Higher; Higher
- ▶ Lower; Lower

Question No: 13 (Marks: 1) - Please choose one

If a company intends to start a new project, _____ technique are employed to assess the financial viability of the project.

- ▶ Financial planning
- ▶ Financial forecasting
- ▶ **Capital budgeting**
- ▶ Capital rationing

Question No: 14 (Marks: 1) - Please choose one

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

- ▶ IRR
- ▶ MIRR
- ▶ PV
- ▶ NPV

Question No: 15 (Marks: 1) - Please choose one

Expected Portfolio Return = _____

- ▶ $r_P^* = x_A r_A + x_B r_B$
- ▶ $r_P^* = x_A r_A - x_B r_B$
- ▶ $r_P^* = x_A r_A / x_B r_B$

► $r_P = x_A r_A + x_B r_B$

Question No: 16 (Marks: 1) - Please choose one

Market risk is measured in terms of the _____ of the market portfolio or index.

- Variance
- Covariance
- **Standard deviation**
- Correlation coefficient

Question No: 17 (Marks: 1) - Please choose one

Which of the following represent all Risk –Return Combinations for the efficient portfolios in the capital market?

- Parachute graph
- **CML straight line equation**
- Security market line
- All of the given options

Question No: 18 (Marks: 1) - Please choose one

Generally companies want to keep the balance in the form of:

- ▶ Debt
- ▶ Equity
- ▶ Hybrid security
- ▶ Both debt and equity

Question No: 19 (Marks: 1) - Please choose one

A firm has a DFL of 3.5 at X dollars. What does this tell us about the firm?

- ▶ If sales rise by 3.5% at the firm, then EBIT will rise by 1%
- ▶ If EBIT rises by 3.5% at the firm, then EPS will rise by 1%
- ▶ **If EBIT rises by 1% at the firm, then EPS will rise by 3.5%**
- ▶ If sales rise by 1% at the firm, then EBIT will rise by 3.5%

Question No: 20 (Marks: 1) - Please choose one

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

- ▶ **Debt capacity**
- ▶ Debt-service burden
- ▶ Adequacy capacity
- ▶ Fixed-charge burden

Time: 120 min

Question No: 21 (Marks: 1) - Please choose one

Which of the following represents financial leverage?

- ▶ **Use of more debt capital to increase profit**
- ▶ Debt is not used in capital to increase profit
- ▶ High degree of solvency
- ▶ Low degree of solvency

Question No: 22 (Marks: 1) - Please choose one

Which of the following statements regarding leverage is true?

- ▶ **The ultimate effect of leverage depends on the firm's EBIT**
- ▶ If things go poorly for the firm, increased leverage provides greater returns to shareholders.
- ▶ As a firm lever up, shareholders are exposed to less risk
- ▶ The benefits of leverage always outweigh the costs of financial distress

Question No: 23 (Marks: 1) - Please choose one

Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate form for financing a new capital investment in plant and equipment?

- ▶ 6-month bank notes
- ▶ Accounts payable
- ▶ **Common stock equity**
- ▶ Trade credit

Question No: 24 (Marks: 1) - Please choose one

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

- ▶ Joint venture
- ▶ **Leveraged buyout (LBO)**
- ▶ Spin-off
- ▶ Consolidation

Question No: 25 (Marks: 1) - Please choose one

Which of the following is **NOT** a form of short-term, spontaneous credit?

- ▶ Accrued wages
- ▶ Trade credit
- ▶ **Commercial paper**
- ▶ Accrued taxes

Question No: 26 (Marks: 1) - Please choose one

Which of the following would **NOT** be included in inventory carrying cost?

- ▶ Insurance expense for the inventory
- ▶ Opportunity cost of capital for inventory investment
- ▶ **Cost of inventory**
- ▶ Cost of shelf space

Question No: 27 (Marks: 1) - Please choose one

What would be the result when there is an increase in the number of shares outstanding by reducing the par value of stock?

- ▶ **Stock split**
- ▶ Stock dividend
- ▶ Extra dividend
- ▶ Regular dividend

Question No: 28 (Marks: 1) - Please choose one

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

- ▶ The price should increase by the amount of the dividend
- ▶ **The price should decrease by the amount of the dividend**
- ▶ The price should decrease by one-half the amount of the dividend
- ▶ The price should remain constant

Question No: 29 (Marks: 1) - Please choose one

Which of the following add up to the costs of financial distress?

- ▶ Direct bankruptcy costs, primarily legal and administrative costs
- ▶ Indirect bankruptcy costs, reflecting the difficulty of managing a company when it is in bankruptcy proceedings

► Costs of the threat of bankruptcy, such as poor investment decisions resulting from conflicts of interest between debtholders and stockholders

► **All of the given options are correct**

Question No: 30 (Marks: 1) - Please choose one

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

► **Pay back period**

► Internal rate of return

► Net present value

► Profitability index

Question No: 31 (Marks: 1) - Please choose one

Which is the best measure of risk for a single asset held in an isolation, and which is the best measure for an asset held in a diversified portfolio?

► Variance, correlation coefficient

► Standard deviation, correlation coefficient

► Beta, variance

► **Coefficient of variation, beta**

Question No: 32 (Marks: 1) - Please choose one

All of the following are used in calculation of required return on a particular stock using SML equation **EXCEPT**:

- ▶ Risk free rate
- ▶ Market risk premium
- ▶ Stock's beta
- ▶ **Stock's price**

Question No: 33 (Marks: 1) - Please choose one

What will be the Stock Y's risk premium if the average share of stock Y has a required return of 20% and beta for that stock is 1.0? In addition, treasury bonds yield is 10%?

- ▶ 5%
- ▶ **10%**
- ▶ 20%
- ▶ 30%

Question No: 34 (Marks: 1) - Please choose one

What should be used to calculate the proportional amount of equity financing employed by a firm?

- ▶ The book value of the firm
- ▶ The sum of common stock and preferred stock on the balance sheet
- ▶ **The current market price per share of common stock times the number of shares outstanding**
- ▶ The common stock equity account on the firm's balance sheet

Question No: 35 (Marks: 1) - Please choose one

According to Traditionalist Theory, when an un-leveraged firm takes on more and more debt, which of the following phenomenon is observed?

- ▶ Cost of Capital increases, reaches a minimum point, and then falls
- ▶ **Cost of Capital decreases, reaches a minimum point, and then rises**
- ▶ Cost of Capital increases, reaches a maximum point, and then rises
- ▶ None of the given options

Question No: 36 (Marks: 1) - Please choose one

In the WACC equation ($r_D x_D + r_E x_E + r_P x_P$), x_D represents which of the following?

- ▶ **Weight or Fraction of Total Capital value raised from bonds**
- ▶ Weight or Fraction of Total Capital value raised from preferred stock
- ▶ Weight or Fraction of Total Capital value raised from common stock
- ▶ Weight or Fraction of Total Capital value raised from retained earnings

Question No: 37 (Marks: 1) - Please choose one

In residual dividend model, what does the term ‘Conservatism’ refer?

- ▶ Overvaluation of free cash flows
- ▶ **Underestimation of free cash flows**

- ▶ Overestimation of free cash flows
- ▶ None of the given option

Question No: 38 (Marks: 1) - Please choose one

The date on which the names of stockholders in the Stock Transfer Register of firm are documented is referred as:

- ▶ Declaration Date
- ▶ **Holder-of-record Date**
- ▶ Ex-Dividend Date
- ▶ Payment Date

Question No: 39 (Marks: 1) - Please choose one

XYZ Corporation has offered its shareholders the option that their dividends will be used to purchase additional shares of this corporation. This offer of XYZ Corporation is referred as:

- ▶ Stock repurchases
- ▶ **Dividend reinvestment**
- ▶ Stock dividends
- ▶ Stock splits

Question No: 40 (Marks: 1) - Please choose one

When $IRR < WACC$ it means that:

- ▶ Investment is acceptable as required rate of return is less than cost of capital
- ▶ **Investment is not acceptable as required rate of return is less than cost of capital**
- ▶ Investment is acceptable as required rate of return is equal to the cost of capital
- ▶ None of the given options is true

Question No: 41 (Marks: 1) - Please choose one

Which of the following statement depicts the advantage of raising capital through debt?

- ▶ Debt adds to company specific risk
- ▶ If company does not pay interest it can be close down
- ▶ **It can improve the return on equity**
- ▶ Not required to pay fixed amount of interest

Question No: 42 (Marks: 1) - Please choose one

Which of the following can be defined as “additional risk faced by common stockholders if firms take debt.”?

- ▶ Unsystematic risk
- ▶ Systematic risk
- ▶ Business risk
- ▶ **Financial risk**

Question No: 43 (Marks: 1) - Please choose one

The decisions regarding working capital management of a firm are mainly concerned with which of the following?

- ▶ Current assets & long-term liabilities of balance sheet
- ▶ Current assets & current liabilities of balance sheet
- ▶ **Fixed assets & current liabilities of balance sheet**
- ▶ Fixed assets & long-term liabilities of balance sheet

Question No: 44 (Marks: 1) - Please choose one

If Current assets = Rs. 16,000,

Current liabilities= Rs. 10,000

Inventory= Rs. 2500

Calculate quick ratio for the firm?

- ▶ **1.35**
- ▶ 6.0
- ▶ 1.60
- ▶ 0.25

Question No: 45 (Marks: 1) - Please choose one

Which of the following states that “Cash is King and only Cash can pay the bills”?

- ▶ Fat cat working capital policy
- ▶ **Lean & Mean perspective**

- ▶ **Balance Sheet Perspective**
- ▶ Moderate working capital policy

Question No: 46 (Marks: 1) - Please choose one

Which of the following depicts the break even point in best way?

- ▶ **EBIT = 0**
- ▶ $EBIT < 0$
- ▶ $EBIT > 0$
- ▶ None of the given options

Question No: 47 (Marks: 1) - Please choose one

Financial leverage is considered good in which of the following?

- ▶ Earning after interest & tax / Total asset > Interest cost
- ▶ Earning after interest & tax / Total asset < Interest cost
- ▶ Earning before interest & tax / Total asset < Interest cost
- ▶ **Earning before interest & tax / Total asset > Interest cost**

Question No: 48 (Marks: 1) - Please choose one

Suppose that there is no personal or corporate income tax and that the firm's WACC is not affected by its capital structure, then which of the following statements is true?

- ▶ **A firm's cost of equity depends on the firm's business and financial risks**

- ▶ The value of the firm is dependent on its capital structure
- ▶ The cost of equity increases as the firm's leverage decreases
- ▶ The greater the financial leverage, the more valuable is the firm

Question No: 49 (Marks: 1) - Please choose one

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ **All of the given options**

Question No: 50 (Marks: 1) - Please choose one

A car manufacturing firm buys steel from a steel mill. Both these entities combined together to form a new firm. It is referred to which of the following?

- ▶ Horizontal Merger
- ▶ **Vertical Merger**
- ▶ Congeneric Merger
- ▶ Conglomerate Merger

Question No: 51 (Marks: 1) - Please choose one

Under efficient market, the effect of debt on WACC can be represented with the help of which of the following?

- ▶ **Straight line**
- ▶ U shaped curve
- ▶ Concave
- ▶ Time to time fluctuation

Question No: 52 (Marks: 1) - Please choose one

What is the effect on WACC if debt increases under pure M&M theory model?

- ▶ It will increase
- ▶ It will decrease
- ▶ **It remains unchanged**
- ▶ None of the given options

Question No: 53 (Marks: 1) - Please choose one

Most of the firms wish to maintain their capital structure in the form of which of the following?

- ▶ 100% equity
- ▶ **100% debt**
- ▶ Mix of debt and equity
- ▶ 100% from the personal savings

Question No: 54 (Marks: 1) - Please choose one

Under Net income approach, which of the following is a correct sequence of calculating cost of capital?

- ▶ Net income – Total firm's market value – WACC
- ▶ Net income – WACC – total firm's market value
- ▶ WACC – Net income – market value of equity
- ▶ **Market value of firm – WACC – Net income**

Question No: 55 (Marks: 3)

If capital structure changes from equity to debt then what will be the effect on capital structure.

Question No: 56 (Marks: 5)

How are dividends paid, and how do companies decide on dividend payments?

ANS:

Question No: 57 (Marks: 5)

Write a note on capital structure of organizations and cost of capital.

Question No: 58 (Marks: 10)

Why is stock price volatility more likely to imply risk than earnings volatility? Explain with the help of some examples.

Question No: 59 (Marks: 10)

Explain the following conditions:

- $IRR < WACC$
- $IRR > WACC > SML$
- $IRR < SML$
- $IRR < WACC < SML$

FINAL TERM EXAMINATION MGT201- Financial Management (Session - 3)

Time: 120 min

Question No: 1 (Marks: 1) - Please choose one

Which of the following type of lease is a long-term lease that is not cancelable and its life often matches the useful life of the asset?

- ▶ A financial
- ▶ An operating
- ▶ Both financial & operating lease
- ▶ None of the given options

Question No: 2 (Marks: 1) - Please choose one

Which of the following would cause the gross profit margin to remain unchanged, but the net profit margin declined over the same period?

- ▶ Cost of goods sold increased relative to sales
- ▶ Sales increased relative to expenses
- ▶ Govt. increased the tax rate
- ▶ Dividends were decreased

Question No: 3 (Marks: 1) - Please choose one

The accounting statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

- ▶ Operating, investing, and financing
- ▶ Investing, operating, and financing
- ▶ Financing, operating and investing
- ▶ Financing, investing, and operating

Question No: 4 (Marks: 1) - Please choose one

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars

▶ In terms of Percentages

▶ Intuitively

▶ Logically

Question No: 5 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

▶ Cash flow from financing activity

▶ Cash flow from operating activity

▶ Cash flow from investing activity

▶ All of the given options

Question No: 6 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

▶ Tangible assets

▶ Intangible assets

► Fixed assets

► Real assets

Question No: 7 (Marks: 1) - Please choose one

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

► Call in

► Call option

► Call provision

► Put option

Question No: 8 (Marks: 1) - Please choose one

Which of the following is designated by the individual investor's optimal portfolio?

- ▶ The point of tangency with the opportunity set and the capital allocation line
- ▶ The point of highest reward to variability ratio in the opportunity set
- ▶ The point of tangency with the indifference curve and the capital allocation line
- ▶ The point of the highest reward to variability ratio in the indifference curve

Question No: 9 (Marks: 1) - Please choose one

Which of the following is **NOT** the form of cash flow generated by the investments of the shareholders?

- ▶ Income
- ▶ Capital loss
- ▶ Capital gain
- ▶ Operating income

Question No: 10 (Marks: 1) - Please choose one

You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X:

- ▶ Will be greater than the intrinsic value of stock Y
- ▶ Will be the same as the intrinsic value of stock Y
- ▶ Will be less than the intrinsic value of stock Y
- ▶ Cannot be calculated without knowing the market rate of return

Question No: 11 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- ▶ The firm can increase market price and P/E by retaining more earnings
- ▶ The firm can increase market price and P/E by increasing the growth rate
- ▶ The amount of earnings retained by the firm does not affect market price or the P/E
- ▶ None of the given options

Question No: 12 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of unsystematic risk.

- ▶ New competitors
- ▶ New product management
- ▶ Worldwide inflation
- ▶ Strikes

Question No: 13 (Marks: 1) - Please choose one

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

▶ 1.5%

▶ 2.0%

▶ 3.0%

▶ 4.0%

Question No: 14 (Marks: 1) - Please choose one

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

▶ IRR

▶ MIRR

▶ PV

► NPV

Question No: 15 (Marks: 1) - Please choose one

In which of the following approach you need to bring all the projects to the same length in time?

- MIRR approach
- Going concern approach
- Common life approach
- Equivalent annual approach

Question No: 16 (Marks: 1) - Please choose one

Which of the following is equal to the market risk, beta, of a security?

- The covariance between the security's return and the market return divided by the variance of the market's returns
- The covariance between the security and market returns divided by the standard deviation of the market's returns
- The variance of the security's returns divided by the covariance between the security and market returns

▶ The variance of the security's returns divided by the variance of the market's returns

Question No: 17 (Marks: 1) - Please choose one

If you become more aggressive with your investments, which one of the following is likely to occur? <http://vustudents.ning.com>

- ▶ Your risk will decrease
- ▶ Your risk will increase
- ▶ Your risk will stay the same
- ▶ Your return will be lower

Question No: 18 (Marks: 1) - Please choose one

In efficient market the stock price depends upon the required return which depends upon _____.

- ▶ Market risk
- ▶ Total risk
- ▶ Diversified risk
- ▶ Non- Systematic risk

Question No: 19 (Marks: 1) - Please choose one

How much return would be offered by the stock whose (risk and return) pair lies above the SML?

- ▶ No return
- ▶ Lower return
- ▶ Average return

▶ **Excessive return**

Question No: 20 (Marks: 1) - Please choose one

Find the Expected Return on the Market Portfolio given that the Expected Return on Stock is 17%, the Risk-Free Rate is 1.1%, and the Beta for Stock is 1.5.

- ▶ **11.7%**
- ▶ 12.14%
- ▶ 13.23%
- ▶ 13.82%

Question No: 21 (Marks: 1) - Please choose one

Which of the following represent all Risk –Return Combinations for the efficient portfolios in the capital market?

- ▶ Parachute graph
- ▶ **CML straight line equation**
- ▶ Security market line
- ▶ All of the given options

Question No: 22 (Marks: 1) - Please choose one

Assume the nominal interest rates (annual) in the country of Freedonia and the United States are 6% and 12% respectively. What is the implied 90-day forward rate if the current spot rate is 5 Freedonian marks (FM) per U.S. dollar?

▶ 4.732

▶ 4.927

▶ 5.074

▶ 5.283

Question No: 23 (Marks: 1) - Please choose one

Which of the following statements is most correct as it relates to the recording of a capital lease?

▶ The capital lease is shown on the lessee's balance sheet as an asset and amortized over the asset's useful life.

▶ The capital lease is listed as an asset on the lessor's balance sheet and amortized over lease term.

▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the lease period.

▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the asset's useful life.

Question No: 24 (Marks: 1) - Please choose one

The trade terms "1/10, net 45" indicate that _____.

▶ A 45% discount is permitted if payment is made within 10 days

- ▶ A 1% discount is permitted if payment is made within 10 days
- ▶ A 10% discount is permitted if payment is made within 45 days
- ▶ A 1% discount is permitted if payment is made within 45 days

Question No: 25 (Marks: 1) - Please choose one

When the buyer purchases securities through a brokerage house, it is called as:

- ▶ Dutch-auction operation
- ▶ Fixed-price operation
- ▶ Open-market operation
- ▶ Fair-warning operation

Question No: 26 (Marks: 1) - Please choose one

The presence of which of the following costs is **NOT** used as a major argument against the M&M arbitrage process?

- ▶ Transaction costs
- ▶ Insurance costs
- ▶ Bankruptcy costs
- ▶ Agency costs

Question No: 27 (Marks: 1) - Please choose one

An implicit cost of adding debt to the capital structure is that it:

- ▶ Adds interest expense to the operating statement

▶ Increases the required return on equity

▶ Reduces the expected return on assets

▶ Decreases the firm's beta

Question No: 28 (Marks: 1) - Please choose one

When financial disaster is looming, why management may borrow to invest in projects having a negative expected NPV?

▶ The firm's beta is now negative

▶ Taxes are no longer a concern

▶ The interest tax shield will cover the loan costs

▶ The lender bears all the risk

Question No: 29 (Marks: 1) - Please choose one

What is difference between shares and bonds?

▶ Bonds represent ownership whereas shares do not

▶ Shares represent ownership whereas bonds do not

▶ Shares and bonds both represent equity

▶ Bonds represent equity whereas shares do not

Question No: 30 (Marks: 1) - Please choose one

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

- ▶ Rs.25,300
- ▶ Rs.34,122
- ▶ **Rs.14,549**
- ▶ Rs.11,989

Question No: 31 (Marks: 1) - Please choose one

Market portion of risk can be represented through which of the following?

- ▶ **Standard deviation**
- ▶ Beta coefficient
- ▶ Correlation coefficient
- ▶ Variance

Question No: 32 (Marks: 1) - Please choose one

The KSE (Karachi Stock Exchange) 100 Index represents what?

- ▶ **The value of Portfolio of Highest volume stocks**
- ▶ The value of Portfolio of all Stocks
- ▶ The value of Portfolio of lowest volume stocks
- ▶ None of the given options

Question No: 33 (Marks: 1) - Please choose one

All of the following are used in calculation of required return on a particular stock using SML equation **EXCEPT**:

- ▶ Risk free rate
- ▶ Market risk premium
- ▶ Stock's beta
- ▶ Stock's price

Question No: 34 (Marks: 1) - Please choose one

What will be the Stock Y's risk premium if the average share of stock Y has a required return of 20% and beta for that stock is 1.0? In addition, treasury bonds yield is 10%?

- ▶ 5%
- ▶ 10%
- ▶ 20%
- ▶ 30%

Question No: 35 (Marks: 1) - Please choose one

Which of the following represents the tax shield?

- ▶ Interest on capital
- ▶ Dividends to shareholders
- ▶ Retained earnings
- ▶ Establishment expenses

Question No: 36 (Marks: 1) - Please choose one

Which of the following theory suggests that shareholder wealth is maximized by a low Dividend Payout?

- ▶ MM Irrelevance Theory
- ▶ Bird in the Hand Theory
- ▶ Tax Preference Theory
- ▶ Signaling Theory

Question No: 37 (Marks: 1) - Please choose one

In residual dividend model, what does the term ‘Conservatism’ refer?

- ▶ Overvaluation of free cash flows
- ▶ Underestimation of free cash flows
- ▶ Overestimation of free cash flows
- ▶ None of the given option

Question No: 38 (Marks: 1) - Please choose one

Which of the following states that dividends can not exceed retained earnings which are shown in balance sheet?

- ▶ Irrelevance theory
- ▶ Impairment of Capital Rule
- ▶ Bird-in-the-hand rule
- ▶ Tax preference theory

Question No: 39 (Marks: 1) - Please choose one

Mr. X is going to purchase the stock of ABC Company. Mr. X should purchase the stock on which date so that he can be entitled to receive the dividend, keeping in mind the ex-dividend date is December 7?

▶ December 6

▶ December 7

▶ December 8

▶ December 9

Question No: 40 (Marks: 1) - Please choose one

Which of the following statement shows the total stand alone risk of a firm?

▶ Unique risk + Market risk

▶ Diversified risk + Financial risk

▶ Business risk + Financial risk

▶ Business risk + Market risk

Question No: 41 (Marks: 1) - Please choose one

Which of the following best matches this statement: “A policy under which relatively large amount of cash, marketable securities, and inventories are carried and under which sales are stimulated by a liberal credit policy, resulting in a high level of receivable”?

▶ Fat cat working capital policy

▶ Lean & Mean working capital policy

▶ Moderate working capital policy

▶ None of the given options

Question No: 42 (Marks: 1) - Please choose one

Calculate the return on equity (ROE) of ABC Company using Du Pont equation and the data given below:

Profit Margin= 30%

Asset Turnover= 50%

Leverage Factor = 60%

▶ 3.6%

▶ 9%

▶ 14%

▶ 33%

Question No: 43 (Marks: 1) - Please choose one

Which of the following is the total cost formula?

▶ Fixed cost * Quantity + Variable cost

▶ Variable cost * Quantity - Fixed cost

▶ Variable cost * Quantity + Fixed cost

▶ Fixed cost * Quantity - Variable cost

Question No: 44 (Marks: 1) - Please choose one

Capital structure theory is presented by which of the following?

- ▶ Robert Alan Hill
- ▶ Modigliani & Miller
- ▶ Brigham & Houston
- ▶ Van Horne & Gittman

Question No: 45 (Marks: 1) - Please choose one

Which of the following statements is correct regarding an aggressive financing policy for a firm relative to a previous conservative policy?

- ▶ The firm will use long-term financing to finance all fixed and current assets
- ▶ The firm will see an increase in its expected profits than before
- ▶ The firm will see a decline in its overall risk profile
- ▶ The firm will need to issue additional common stock this period to finance the assets

Question No: 46 (Marks: 1) - Please choose one

Under which of the following conditions, suppliers may refuse to supply the raw material?

- ▶ When there is rumor of bankruptcy of the firm
- ▶ When firms are financed through debt
- ▶ When firms are financed through equity

- ▶ Under uncertain market conditions

Question No: 47 (Marks: 1) - Please choose one

Which of the following is also known as service lease?

- ▶ Capital Lease
- ▶ Financial Lease
- ▶ Operating Lease
- ▶ Sale & Lease-Back

Question No: 48 (Marks: 1) - Please choose one

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ All of the given options

Question No: 49 (Marks: 1) - Please choose one

Two businesses at the same level of production are merging together. It is referred as:

- ▶ Horizontal Merger
- ▶ Vertical Merger

- ▶ Congeneric Merger
- ▶ Conglomerate Merger

Question No: 50 (Marks: 1) - Please choose one

Under pure M&M theory, WACC does not change with _____.

- ▶ Change of debt in capital structure
- ▶ Change in EPS
- ▶ Change financial expenses
- ▶ Change in business risk

Question No: 51 (Marks: 1) - Please choose one

According to the trade off theory, value of the firm rises as a result of _____.

- ▶ Tax saving
- ▶ Increase in EPS
- ▶ Increase in EBIT
- ▶ Saving in cost of debt

Question No: 52 (Marks: 1) - Please choose one

From which of the following equations, net income can be calculated?

- ▶ $NI = (EBIT - x_D r_D) (1 - T_c)$
- ▶ $NI = (EAT - x_D r_D) (1 - T_c)$

► $NI = (EBIT + x_D r_D) (1 - T_c)$

► $NI = (EBIT - x_D r_D) / (1 - T_c)$

Question No: 53 (Marks: 1) - Please choose one

Calculate the Forward Rate for Rupee using Interest Rate Parity if the interest on 1 Year Maturity in Pakistan is 10% and on Euro is 6% and the forward rate is Rs.124/ EUR.

► Rs. 6 per EUR

► Rs. 120 per EUR

► Rs. 124 per EUR

► Rs. 1240 per EUR

Question No: 54 (Marks: 1) - Please choose one

Which of the following is known as selling price for currency?

► Bid rate

► Ask rate

► Forward rate

► Spot rate

Question No: 55 (Marks: 3)

Write a short note on real asset markets and also give some examples.

The real asset market where the real physical asset are traded .for example, you have wheat market, cotton market, where real material change hands.

Examples: Gold Market, Property (land, house)

Question No: 56 (Marks: 5)

Company XYZ wants to issue more Common Stock of Face Value Rs 12. Next Year the Dividend is expected to be Rs. 3 per share assuming a Dividend Growth Rate of 10% pa.

The Lawyer's fee and Stock Brokers' Commissions will cost Rs 1 per share. Investors are confident about Company ABC so the Common Share is floated at a Market Price of Rs 18 (i.e. Premium of Rs 6).

If the Capital Structure of Company ABC is entirely Common Equity, then what is the Company's WACC? Use New Stock Issuance Approach to calculate the results.

Answer

$$DIV_1 = 2$$

$$G = 10\%$$

$$\text{Lawyer fee and comm.} = 1 \text{ Rs}$$

$$P_0 = 16$$

Capital structure is equity base 100%

As company is 100 equity it means unleveraged company so its wacc will be required rate of return on equity.

Required ROR for Common Stock using Gordon's Formula

$$r = (\text{DIV1}/P_0) + g$$

$$P_0 = \text{market price} = 18$$

$$\text{Div1} = \text{Next Dividend} = 3$$

$$G = \text{growth rate} = 10\%$$

$$r = (3/18) + 10\% = 26.66\%$$

Now If company wanted to issue the stock via new float then it has to pay the lawyer fee and broker commission which 1 Rs.

$$\text{Net proceed} = 18 - 1 = 17$$

$$r = (3/17) + 10\% = 27.64\%$$

Question No: 57 (Marks: 5)

Why may payout decisions be used by management to signal the prospects of the firm? Give answer in bulleted form.

- If a company selected the high pay out policy without the cash flow to back it up.
- They will find that it ultimately has to either reduce the investments or turn to capital markets for additional debt or equity financing.
- As it is costly, managers will not increase dividends unless they are confident that the firm will get enough cash to pay them.
- It is main reason that we say that there is an information signal attached to dividends payout policy.
- So any change in the dividend payout policy send signals of a change in the firm's prospects.
- Investors take it positively that a company plans to repurchase its stock.
- If they are worried that the company has more cash than it can profitably employ, they may be pleased to see the cash given back to the shareholders.

Question No: 58 (Marks: 10)

What are the factors affecting signaling theory?

(Give the answer in bulleted form only with brief description)

- This theory consider that all Investors not have equal amount of information.
- All investors are not rational.
- Insider have more information compare to general public
- A Firm's Owners & Managers (Insiders) know more about it than Ordinary outside Investors.
- When manage or owner knows that there are better chances of high cash flow or some project which can bring good profit or earning. They try to finance the capital via debt or bond. They avoid use the equity issuance. Because they don't wanted to share the profit with number share holders. They take capital via debt by paying small amount of interest by this they can earn huge profits.

- When Firm's Outlook looks bad or some risky project, then Managers will choose to raise capital by Issuing Equity by doing this they will be able to share the Likely Losses amongst more Shareholders. If they took Debt and couldn't repay it, they might Default and be forced to go Bankrupt.
- By doing this investor also get signal that if companies is financing its capital via debt then likely it will be some good prospect in the company.
- By looking at these practices by management we can so managers are in a better position to decide about the firm.

Question No: 59 (Marks: 10)

Explain the following conditions:

- $IRR < WACC$
- $IRR > WACC > SML$
- $IRR < SML$
- $IRR < WACC < SML$

$IRR < WACC$

you should not invest in this project as rate of return is less then WACC. In other words your returns are less the cost of capital.

$IRR > WACC > SML$

we should take this project as its rate of return is higher than the WACC and it offers better return than an efficient market offers. Due to IRR is higher than SML

$IRR < SML$

It is showing rate of return which is lower than SML we should not invest in such project because it is not giving as much return as efficient market is returns

$IRR < WACC < SML$

IRR lower than WACC and SML company should not invest as IRR is not enough to cover the WACC (not enough to cover the cost of capital) plus its returns are lower than returns offered by efficient market.

MGT201-FM

MGT201 Solved MCQ

Question # 1

Which of the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

Question # 2

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Question # 3

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost

Sunk cost

Floatation cost

Question # 4

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods) (1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Ref: <http://web.utk.edu/~jwachowi/annuity3.html> Check Question #7

Question # 5

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Select correct option:

- Intrinsic value
- Book value
- Par value
- Historic cost

Question #6

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

- Indenture
- Debenture
- Bond
- Bond trustee

Reference: A trustee is a person or institution designated by a bond issuer as the official representative of the bondholders.

Question # 7

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Select correct option:

Sunk cost

Opportunity cost

Externalities (Page50)

Contingencies

Question #8

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Question # 9

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 10

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 12

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

Reference:

Indenture -- The legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders, establishing the terms of the bond issue and naming the trustee.

Question # 13

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

Rs.105,000 (Doubted)

Rs.1,500,000

Rs.3975,000

Rs. 350,000

Question # 14

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Reference: Long Term Liabilities: Also, called Discretionary Financing does not grow in proportion to Sales

Question # 15

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$$20000/(1.08)^{20} = 93129$$

Question # 16

Which of the following is the Double Entry Principle?

Select correct option:

Assets + Liabilities = Shareholders' Equity

Assets = Liabilities + Shareholders' Equity

Liabilities = Assets + Shareholders' Equity

None of the given option

Reference:

Fundamental Accounting Equation and Double Entry Principle.

- Assets + Expense = Liabilities + Shareholders' Equity + Revenue

(Note: Expense & Revenue are Temporary P/L accounts – the others are Permanent Balance Sheet

Accounts)

- Left Hand Items increase when debited. Right Hand items increase when credited.
- For every journal entry, the Sum of Debits = the Sum of Credits

Question # 17

What are the Direct claim securities?

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Reference: Page 82

Direct claim securities like bond and stocks the value of security can be calculated from the cash flows of underlying assets

Question # 18

Which of the following is NOT true regarding an ordinary annuity?

Select correct option:

It is a series of equal cash flows

Cash flows occur for a specific time period

Payments are made at the start of each period

It is also known as deferred annuity

Reference:

Ordinary Annuity

An ordinary annuity, also known as deferred annuity, consists of a series of equal payments at the end of each period.

Question # 19

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Question # 20

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Reference:

The payback method focuses on the payback period. The payback period is

the length of time that it takes for a project to recoup its initial cost out of the cash receipts that it generates. This period is some times

referred to as" the time that it takes for an investment to pay for itself."

The basic premise of the payback method is that the more quickly the cost

of an investment can be recovered, the more desirable is the investment. The

payback period is expressed in years. When the net annual cash inflow is the

same every year, the following formula can be used to calculate the payback period.

Question # 21

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Question # 22

As interest rates go up, the present value of a stream of fixed cash flows ____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Question # 23

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 24

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

Reference:

<http://www.investopedia.com/terms/b/bookvaluepercommon.asp>

Question # 25

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

Question # 26

Given no change in required returns, the price of a stock whose dividend is constant will _____.

Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Question # 27

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Reference:

Page 29

Question # 28

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

Question # 29

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

Question # 30

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Reference:

Page 64

Question # 31

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 32

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Reference:

Current Liabilities: Also called Spontaneous Financing. Generally grow in proportion to Sale.

Question # 33

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Reference:

Page 20 & 22

Question # 34

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

Financial accounting

Financial management

Financial engineering

Financial budgeting

Question # 35

What is the long-run objective of financial management?
Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 36

Why companies invest in projects with negative NPV?
Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 37

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?
Select correct option:

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs
Estimate the retained earnings

Question # 38

Which of the following is NOT the type of Hybrid organizations?
Select correct option:

S-Type Corporation
Limited Liability Partnership
Sole Proprietorship
Professional Corporation

Question # 39

Which of the following techniques would be used for a project that has non-normal cash flows?
Select correct option:

Internal rate of return
Multiple internal rate of return
Modified internal rate of return
Net present value

Question # 40

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.
Select correct option:

IRR

MIRR

PV

NPV

Question # 41

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Question # 42

In which of the following approach you need to bring all the projects to the same length in time?
Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

Question # 43

Where there is single period capital rationing, what is the most sensible way of making investment decisions?
Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Reference:

It is a process of making investment decisions on viable projects where funds are limited. Investments decisions are made given a fixed amount of capital to be invested in viable projects. If a company doesn't have sufficient funds to undertake all projects with a positive NPV, this is a capital rationing situation.

Question # 44

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 45

Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?

Involvement of interest rate while making calculations

Do not account for time value of money

Tricky and complicated methods

All of the given options

Question # 46

How can a company improve (lower) its debt-to-total asset ratio?

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Question # 47

The value of the bond is NOT directly tied to the value of which of the following assets?

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Question # 48

The value of a bond is directly derived from which of the following?

Cash flows
Coupon receipts
Par recovery at maturity
All of the given options

Question # 49

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

Par value
Market value
Intrinsic value
Face value

Question # 50

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

Higher; lower
Lower; Lower
Lower; higher
Higher; higher

Reference:

A good project might suffer from a lower IRR even though its NPV is higher.

Question # 51

Which group of ratios shows the extent to which the firm is financed with debt

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Question # 51

When bonds are issued, under which of the following category the value of the bond appears

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

Question # 52

Which of the following refers to bringing the future cash flow to the present time

Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Question # 53

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Question # 54

Effective interest rate is different from nominal rate of interest because

Select correct option:

Nominal interest rate ignores compounding

Nominal interest rate includes frequency of compounding

Periodic interest rate ignores the effect of inflation (Doubted)

All of the given options

Effective Interest Rate = i_{eff}

It is very useful to compare securities and investments with different life or

compounding cycles but not used for Discounting and PV.

Question # 55

What are the Indirect securities

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that indirectly generate returns for its investors

All of the given options

Reference: Indirect Securities: Indirect securities include derivatives, Futures and Options

The securities do not generate any cash flow; however, its value depends on the value of the underlying asset.

Question # 56

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following

Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

Reference:

Lecture 12

Question # 57

When a bond will sell at a discount

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

Question # 58

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 59

capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 60

Which of the following is the general assumption of Percent of Sales Forecasting?

Select correct option:

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

Current Assets usually grow in proportion to Liabilities

Current Assets usually grow in proportion to Sales

Question # 61

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Question # 62

Which of the following is NOT true regarding an annuity due?
Select correct option:

It is a series of equal cash flows

It is also known as deferred annuity

Cash flows occur for a specific time period

Payments are made at the start of each period

Question # 63

When coupon bonds are issued, they are typically sold at which of the following value?
Select correct option:

Above par value

Below par

At or near par value

At a value unrelated to par

Question # 64

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?
Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 65

Which of the following is NOT an example of hybrid equity
Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares
- Preferred shares

Question # 66

Why we need Capital rationing?
Select correct option:

- Because, there are not enough positive NPV projects
- Because, companies do not always have access to all of the funds they could make use of
- Because, managers find it difficult to decide how to fund projects
- Because, banks require very high returns on projects

Question # 67

Which of the following needs to be excluded while we calculate the incremental cash flows?
Select correct option:

- Depreciation
- Sunk cost
- Opportunity cost
- Non-cash item

Question # 68

Which of the following affects price of the bond?
Select correct option:

Market interest rate

Required rate of return
Interest rate risk
All of the given options.

Question # 69

Which of the following is/are the characteristic(s) of Perpetuity?
Select correct option:

It is an annuity
It has no definite end
It is a constant stream of identical cash flows
All of the given options

Question # 70

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:
Select correct option:

Pay back period
Internal rate of return
Net present value
Profitability index

Question # 71

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$$FV = PV \times e^{i \times n}$$

$$FV = 20000 \times 2.718(0.08 \times 20)$$

$$FV = 20000 \times 4.95221081$$

$$FV = 99044.2162$$

Question # 72

Question # 3 of 15 (Start time: 10:32:12 PM) Total Marks: 1

Which of the following is a limitation of a Corporation?

Select correct option:

Easy to set up

Double-taxation

Inexpensive to maintain

Unlimited liability

Reference:

Limitations:

i. Double Taxation:

Corporate earnings may be subject to double taxation – the earnings of the

corporation are taxed at corporate level, and then any earnings paid out as

dividends are taxed again as income to the stockholders.

ii. Legal Formalities:

Setting up a corporation, and filing many official documents, is more complex

and time consuming than for a proprietorship or a partnership

Question # 73

The return in excess to risk free rate that investors require for bearing the market risk is known as:

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 74

Study the time line and accompanying 5-period cash-flow pattern below.

0	1	2	3	4	5	6	Time line	-----	-----	-----	-----	-----	-----
--	Rs.10	Rs.10	Rs.10	Rs.10	Rs.10		Cash flows			A	B		

The present value of the 5-period annuity shown above as of Point A is the present value of a 5-period _____, whereas the future value of the same annuity as of Point B is the future value of a 5-period _____.

Select correct option:

Ordinary annuity; ordinary annuity

Ordinary annuity; annuity due

Annuity due; annuity due

Annuity due; ordinary annuity

Question # 75

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Reference: (Page63)

One form of the debt is bonds. Value of Direct Claim Security is directly will be determined by the value of the underlying Real Asset.

Question # 76

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 77

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm (Doubted)

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 78

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 79

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Reference: (Page14)

Operating Revenue – Other Expenses + Other Revenue = EBIT

Question # 80

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Question # 81

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

Reference:

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Question # 82

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 83

Which of the following is type a Temporary Account?

Select correct option:

Asset

Liability
Reserves
Revenue

Reference:

P/L Items or Accounts are 'temporary' accounts that need to be closed at the end of the accounting cycle

Question # 84

Which of the following is NOT an example of a financial intermediary?

Select correct option:

- Wisconsin S&L, a savings and loan association
- Strong Capital Appreciation, a mutual fund
- Microsoft Corporation, a software firm
- College Credit, a credit union

Question # 85

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____?

Select correct option:

Both bonds will increase in value, but bond A will increase more than bond B

Both bonds will increase in value, but bond B will increase more than bond A

Both bonds will decrease in value, but bond A will decrease more than bond B

Both bonds will decrease in value, but bond B will decrease more than bond A

Question # 86

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money

It neglects cash flows after the payback period

It does not use interest rate while making calculations

It is a tricky and complicated method

Question # 87

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium (doubted)

Maturity risk premium

Question # 88

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Question # 89

What is yield to maturity on a bond?

Select correct option:

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 90

What should be the focal point of financial management in a firm?

Select correct option:

The number and types of products or services provided by the firm

The minimization of the amount of taxes paid by the firm

The creation of value for shareholders

The dollars profits earned by the firm

Question # 91

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

Accounts that are found on Balance Sheet

All of the given options

Question # 92

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical

None of the given options

Question # 93

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?

Select correct option:

3.33%

30%

31%

70%

Reference:

Plowback = 1 - Payout

Plowback + Payout = 1

Payout = 1 - Plowback

Payout = 1 - 30%

Payout = 1 - 0.3

Payout = 0.7 * 100

Payout = 70%

Question # 94

Which of the following is the risk of investing funds in another country?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 95

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 96

MIRR (discount rate) equates which of the following?

Select correct option:

Future value of cash inflows to the present value of cash outflows

Future value of cash flows to the present value of cash flows

Future value of all cash flows to zero

Present value of all cash flows to zero

Question # 97

Which of the following is the main objective of 'Economics'?

Select correct option:

Profit maximization

Maximization of shareholders wealth

Collection of accurate, systematic, and timely financial data

All of the given options

Question # 98

An investment proposal should be judged in whether or not it provides:

Select correct option:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

Question # 99

Which of the following refers to time value of money concept?

Select correct option:

A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow

All of the given options

Question # 100

Which of the following is NOT true regarding the capital market?
Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year

Where TFCs and NIT are exchanged and traded

Where overnight lending & borrowing takes place

MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 5)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Which of the following statements is correct for a sole proprietorship?

- ▶ The sole proprietor has limited liability
- ▶ The sole proprietor can easily dispose of their ownership position relative to a shareholder in a corporation

▶ The sole proprietorship can be created more quickly than a corporation

- ▶ The owner of a sole proprietorship faces double taxation unlike the partners in a partnership

Question No: 2 (Marks: 1) - Please choose one

Which of the following market refers to the market for relatively long-term financial instruments?

- ▶ Secondary market
- ▶ Primary market
- ▶ Money market

▶ Capital market

Question No: 3 (Marks: 1) - Please choose one

Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5 percent. What are its sales?

- ▶ 750,0Rs.3, 750,000

▶ Rs.48Rs.480, 000

▶ **Rs.30Rs.300, 000**

▶ Rs.1, Rs.1, 500,000

Question No: 4 (Marks: 1) - Please choose one

_____ An investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return require by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor

▶ **A return equal to or more than required by investor**

Question No: 5 (Marks: 1) - Please choose one

_____ A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- ▶ Payback period
- ▶ **Internal rate of return**
- ▶ Net present value
- ▶ Profitability index

Question No: 6 (Marks: 1) - Please choose one

_____ A
capital budgeting technique that is **NOT** considered as discounted cash flow method is:

► **Payback period**

- Internal rate of return
- Net present value
- Profitability index

Question No: 7 (Marks: 1) - Please choose one

Why net present value is the most important criteria for selecting the project in capital budgeting?

► Because it has a direct link with the shareholders dividends maximization

► **Because it has direct link with shareholders wealth maximization**

► Because it helps in quick judgment regarding the investment in real assets

► Because we have a simple formula to calculate the cash flows

Question No: 8 (Marks: 1) - Please choose one

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ Profitability index (PI)
- ▶ **Net present value (NPV)**
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

Question No: 9 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

Question No: 10 (Marks: 1) - Please choose one

_____ If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

▶ 7.00

▶ 6.53

▶ 8.53

▶ **7.18**

Question No: 11 (Marks: 1) - Please choose one

Which of the following is designated by the individual investor's optimal portfolio?

▶ The point of tangency with the opportunity set and the capital allocation line

▶ **The point of highest reward to variability ratio in the opportunity set**

▶ The point of tangency with the indifference curve and the capital allocation line

▶ The point of the highest reward to variability ratio in the indifference curve

Question No: 12 (Marks: 1) - Please choose one

Assume that the expected returns of the portfolios are the same but

their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

▶ 1.5%

▶ 2.0%

▶ 3.0%

▶ **4.0%**

Question No: 13 (Marks: 1) - Please choose one

Which of the following is a drawback of percentage of sales method?

▶ It is a rough approximation

▶ There is change in fixed asset during the forecasted period

▶ Lumpy assets are not taken into account

▶ **All of the given options**

Question No: 14 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

▶ Depreciation

▶ **Sunk cost**

▶ Opportunity cost

▶ Non-cash item

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of a financial intermediary?

▶ Wisconsin S&L, a savings and loan association

▶ Strong Capital Appreciation, a mutual fund

▶ **Microsoft Corporation, a software firm**

▶ College Credit, a credit union

Question No: 16 (Marks: 1) - Please choose one

An 8% coupon Treasury note pays interest on May 30 and November 30 and is traded for settlement on August 15. What is the accrued interest on Rs. 100,000 face value of this note?

▶ Rs. 491.80

▶ Rs. 800.00

▶ **Rs. 983.61**

▶ Rs. 1,661.20

Question No: 17 (Marks: 1) - Please choose one

_____ A preferred stock will pay a dividend of Rs. 3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

▶ Rs. 0.39

▶ Rs. 0.56

▶ **Rs. 31.82**

▶ Rs. 56.25

Question No: 18 (Marks: 1) - Please choose one

_____ Information that goes into _____ can be used to prepare _____.

▶ A forecast balance sheet; a forecast income statement

▶ Forecast financial statements; a cash budget

▶ **Cash budget; forecast financial statements**

▶ A forecast income statement; a cash budget

Question No: 19 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11% compounded annually?

▶ **Rs.5,850**

▶ Rs.4,872

▶ Rs.6,725

▶ Rs.1,842

Question No: 20 (Marks: 1) - Please choose one

“Do not compare apples with oranges” is the concept in:

▶ **Discounting and Net present value**

▶ Risk & return

▶ Insurance management

▶ Time value of money

Question No: 21 (Marks: 1) - Please choose one

Which of the following is NOT the interest rate used for discounting calculation?

▶ **Benchmark interest rate**

▶ Effective interest rate

- ▶ Periodic interest rate
- ▶ Nominal interest rate

Question No: 22 (Marks: 1) - Please choose one

Which of the following is the formula to calculate the future value of perpetuity?

- ▶ Constant cash flows $\times$ interest rate
- ▶ **Constant cash flows / interest rate**
- ▶ Constant cash flows + Constant cash flows $\times$ interest rate
- ▶ Constant cash flows - Constant cash flows/ interest rate

Question No: 23 (Marks: 1) - Please choose one

Which of the following interest rate keeps on moving and changing on daily basis?

- ▶ Book value
- ▶ **Market value**
- ▶ Salvage value
- ▶ Face value

Question No: 24 (Marks: 1) - Please choose one

From which of the following formula we can calculate coupon rate?

- ▶ Coupon receipt / market value
- ▶ Coupon receipt / present value
- ▶ Coupon receipt / salvage value

▶ **Coupon receipt / book value**

Question No: 25 (Marks: 1) - Please choose one

Value of “g” in the formula of constant growth rate can be calculated from which of the following formula?

▶ **$g = \text{plowback ratio} \times \text{ROE}$**

- ▶ $g = \text{plowback ratio} \times \text{ROA}$
- ▶ $g = \text{payout ratio} + \text{ROE}$
- ▶ $g = \text{payout ratio} + \text{ROA}$

Question No: 26 (Marks: 1) - Please choose one

In Gordon's formula ($r_{CE} = \text{DIV1} / P_o + g$), r_{CE} is considered as _____ and “g” is considered as _____.

- ▶ Dividend yield, operating expenses
- ▶ Dividend yield, operating income
- ▶ Dividend yield, capital loss

► **Dividend yield, capital gain**

Question No: 27 (Marks: 1) - Please choose one

_____ To calculate the annual rate of return for an investment, we require which of the following(s)?

- The income created
- The gain or loss in value
- The original value at the beginning of the year

► **All of the given options**

Question No: 28 (Marks: 1) - Please choose one

_____ This is an example of which of the following?

Real estate prices fell across the board because the market was glutted with surplus pre-owned homes for sale.

- Economic risk
- Industry risk
- Company risk

► **Market risk**

Question No: 29 (Marks: 3)

Briefly explain what call provision is and in which case companies use this option.

Question No: 30 (Marks: 3)

There are two stocks in the portfolio of Mr. N, Stock A and Stock B. the information of this portfolio is as follows:

Common stock	Expected rate of return	Standard deviation
Stock A	15%	10%
Stock B	20%	15%

Calculate the expected rate of return on this portfolio assuming that Stock A consists of 75% of the total funds invested in the stocks and the remainder in Stock B.

Question No: 31 (Marks: 5)

(a) What is correlation of coefficient?

(b) What are efficient portfolios?

Question No: 32 (Marks: 5)

Suppose you approach a bank for getting loan. And the bank offers to lend you Rs.1, 000,000 and you sign a bond paper. The bank asks you to issue a bond in their favor on the following terms required by the bank: Par Value = Rs 1, 000,000, Maturity = 3 years

Coupon Rate = 15% p.a, Security = Machinery

You are required to calculate the cash flow of the bank which you will pay every month as well as the present value of this option.

MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 3)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Which of the following is equal to the average tax rate?

- ▶ **Total tax liability divided by taxable income**
- ▶ Rate that will be paid on the next dollar of taxable income
- ▶ Median marginal tax rate

▶ Percentage increase in taxable income from the previous period

Question No: 2 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

- ▶ **Liquidity ratios**
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 3 (Marks: 1) - Please choose one

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1, 500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

- ▶ Rs.700 Rs.500 Rs.300
- ▶ **Rs.300 Rs.500 Rs.700**
- ▶ Rs.500 Rs.500 Rs.500
- ▶ Any of the above, since they each sum to Rs.1,500

Question No: 4 (Marks: 1) - Please choose one

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.

- ▶ Present value
- ▶ Simple interest
- ▶ Future value
- ▶ **Compound interest**

Question No: 5 (Marks: 1) - Please choose one

You are going to invest Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?

- ▶ Rs.14,491

- ▶ Rs.14,518
- ▶ Incomplete information
- ▶ **Rs.14,460**

Question No: 6 (Marks: 1) - Please choose one

_____ An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

Question No: 7 (Marks: 1) - Please choose one

_____ All of the following influence capital budgeting cash flows **EXCEPT** _____.

- ▶ **Choice of depreciation method for tax purposes**
- ▶ Economic length of the project
- ▶ Projected sales (revenues) for the project

- ▶ Sunk costs of the project

Question No: 8 (Marks: 1) - Please choose one

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to

_____.

- ▶ Include sunk costs, but ignore opportunity costs
- ▶ **Include opportunity costs, but ignore sunk costs**
- ▶ Ignore both opportunity costs and sunk costs
- ▶ Include both opportunity and sunk costs

Question No: 9 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- ▶ Cash flow from financing activity
- ▶ Cash flow from operating activity
- ▶ Cash flow from investing activity
- ▶ **All of the given options**

Question No: 10 (Marks: 1) - Please choose one

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

- ▶ Cash budgeting
- ▶ Capital budgeting
- ▶ **Capital rationing**
- ▶ Capital expenditure

Question No: 11 (Marks: 1) - Please choose one

Who is responsible for the decisions relating capital budgeting and capital rationing?

- ▶ Chief executive officer
- ▶ Junior management
- ▶ Division heads
- ▶ **All of the given option**

Question No: 12 (Marks: 1) - Please choose one

When coupon bonds are issued, they are typically sold at which of the following value?

- ▶ Below par
- ▶ Above par value
- ▶ **At or near par value**
- ▶ At a value unrelated to par

Question No: 13 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of hybrid equity?

- ▶ Convertible bonds
- ▶ Convertible debenture
- ▶ **Common shares**
- ▶ Preferred shares

Question No: 14 (Marks: 1) - Please choose one

The value of dividend is derived from which of the following?

► **Cash flow stream**

- Capital gain /loss
- Difference between buying & selling price
- All of the given options

Question No: 15 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- The firm can increase market price and P/E by retaining more earnings
- The firm can increase market price and P/E by increasing the growth rate
- **The amount of earnings retained by the firm does not affect market price or the P/E**
- None of the given options

Question No: 16 (Marks: 1) - Please choose one

When Investors want high plowback ratios?

- **Whenever $ROE > k$**

- ▶ Whenever $k > \text{ROE}$
- ▶ Only when they are in low tax brackets
- ▶ Whenever bank interest rates are high

Question No: 17 (Marks: 1) - Please choose one

Which of the following statement about portfolio statistics is **CORRECT**?

▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**

▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

▶ The square root of a portfolio's standard deviation of return equals its variance.

▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question No: 18 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation

► **Unsystematic risk**

- Financial risk

Question No: 19 (Marks: 1) - Please choose one

Diversification can reduce risk by spreading your money across many different _____.

- Investments
- Markets
- Industries
- **All of the given options**

Question No: 20 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of unsystematic risk.

- New competitors
- New product management
- **Worldwide inflation**
- Strikes

Question No: 21 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ **Sunk cost**
- ▶ Opportunity cost
- ▶ Non-cash item

Question No: 22 (Marks: 1) - Please choose one

Under which concept it is said that “do not put all your eggs in one basket”?

- ▶ Risk & return
- ▶ **Portfolio diversification**
- ▶ Insurance management
- ▶ Time value of money

Question No: 23 (Marks: 1) - Please choose one

_____ All of the following are the steps involved in financial planning process **EXCEPT:**

- ▶ Assumptions are made about future levels of sales, costs, and interest rates etc.
- ▶ Ratios are projected and analyzed
- ▶ **Projected financial statements are developed**
- ▶ Comparison with key competitors about the prices to be charged

Question No: 24 (Marks: 1) - Please choose one

Which of the following is NOT the interest rate used for discounting calculation?

- ▶ **Benchmark interest rate**
- ▶ Effective interest rate
- ▶ Periodic interest rate
- ▶ Nominal interest rate

Question No: 25 (Marks: 1) - Please choose one

Suppose you are going to sale an old asset and its market value is greater than its book value it indicates that:

- ▶ **Company is going to have capital gain**
- ▶ Company will have to bear capital loss
- ▶ Company is going to earn operating revenue
- ▶ Company has to bear revenue expense

Question No: 26 (Marks: 1) - Please choose one

Which of the following is not a type of problem in capital rationing?

- ▶ Size difference of projects
- ▶ Timing difference of projects
- ▶ Different lives of different projects
- ▶ **Different cash flow streams**

Question No: 27 (Marks: 1) - Please choose one

In Pakistan which of the following is assigned to bond rating and risk?

- ▶ IMF
- ▶ Moody's
- ▶ Standard & poor
- ▶ **PACRA**

Question No: 28 (Marks: 1) - Please choose one

Which of the following statement defines the following events i.e Inflation, recession, and high interest rates?

- ▶ **Systematic risk factors that can be diversified away**
- ▶ Company-specific risk factors that can be diversified away
- ▶ Among the factors that are responsible for market risk
- ▶ Irrelevant except to governmental authorities like the Federal Reserve

Question No: 29 (Marks: 3)

Differentiate the real assets and securities.

Question No: 30 (Marks: 3)

_____ A security analyst has estimated the following returns on the stocks of 4 large companies:

	Weightage	Expected Returns
Company A	25%	12%
Company B	25%	11.5%
Company C	25%	10.5%
Company D	25%	9.5%

You are required to calculate the expected return on this portfolio.

Question No: 31 (Marks: 5)

_____ Why a person should invest in shares? Give reasons.

Question No: 32 (Marks: 5)

_____ H
Corporation's stock currently sells for Rs.20 a share. The stock just paid a dividend of Rs.2 a share ($D_0 = \text{Rs.}2$). the dividend is expected to grow at a constant rate of 11% a year.

- ⌚ What stock price is expected 1 year from now?
- ⌚ What would be the required rate of return on company's stock?

MIDTERM EXAMINATION**Spring 2009****MGT201- Financial Management (Session - 2)****Question No: 1 (Marks: 1) - Please choose one**

_____ Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 2 (Marks: 1) - Please choose one

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ One; one
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

Question No: 3 (Marks: 1) - Please choose one

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- ▶ A probability distribution

- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 4 (Marks: 1) - Please choose one

_____ A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

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Question No: 5 (Marks: 1) - Please choose one

_____ The present value of growth opportunities (PVGO) is equal to

- v) The difference between a stock's price and its no-growth value per share
- vi) The stock's price
- vii) Zero if its return on equity equals the discount rate
- viii) The net present value of favorable investment opportunities

- ▶ I and IV

- ▶ II and IV
- ▶ I, III, and IV
- ▶ II, III, and IV

Question No: 6 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- ☐▶ ☐The firm can increase market price and P/E by retaining more earnings
- ☐▶ ☐The firm can increase market price and P/E by increasing the growth rate
- ☐▶ ☐**The amount of earnings retained by the firm does not affect market price or the P/E**
- ☐▶ ☐None of the given options

Question No: 7 (Marks: 1) - Please choose one

Which of the following would tend to reduce a firm's P/E ratio?

- ☐▶ ☐The firm significantly decreases financial leverage
- ☐▶ ☐The firm increases return on equity for the long term

☐ ☐ ☐ ☐ ☐ ☐ ☒ ☐ The level of inflation is expected to increase to double-digit levels

□□□□□□▶ □The rate of return on Treasury bills decreases

Question No: 8 (Marks: 1) - Please choose one

_____ A
company whose stock is selling at a P/E ratio greater than the P/E
ratio of a market index, most likely has _____.

□□□□□□►□An anticipated earnings growth rate which is less than that of the average firm

□□□□□□► □ A dividend yield which is less than that of the average firm

☐ ☐ ☐ ☐ ☐ ☐ ☒ ☐ Less predictable earnings growth than that of the average firm

□□□□□□▶□ Greater cyclicality of earnings growth than that of the average firm

Question No: 9 (Marks: 1) - Please choose one

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☒ Real risk-free rate

□ □ □ □ □ □ □

Question No: 10 (Marks: 1) - Please choose one

The market capitalization rate on the stock of Steel Company is 12%. The expected ROE is 13% and the expected EPS are Rs. 3.60. If the firm's plowback ratio is 50%, what will be the P/E ratio?



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How dividend yield on a stock is similar to the current yield on a bond?



☐☐☐☐☐☐ ► ☐ Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

☐ ☐ ☐ ☐ ☐ ☐ ☒ Both incorporate the par value in their calculation

Question No: 12 (Marks: 1) - Please choose one

Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

□ □ □ □ □ □ ▶ □ **6.0%**

□ □ □ □ □ □ □ ▶ □ 4.8%

□ □ □ □ □ □ □ ▶ □ 7.2%

□ □ □ □ □ □ □ ▶ □ 3.0%

Question No: 13 (Marks: 1) - Please choose one

The value of direct claim security is derived from which of the following?

- ▶ Fundamental analysis
- ▶ **Underlying real asset**
- ▶ Supply and demand of securities in the market
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Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

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- ▶ Intrinsic value
- ▶ Face value

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How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

Question No: 16 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity
- ▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Question No: 17 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

- ▶ **Pays interest on a regular basis (typically every six months)**
- ▶ Does not pay interest on a regular basis but pays a lump sum at maturity
- ▶ Can always be converted into a specific number of shares of common stock in the issuing company
- ▶ Always sells at par

Question No: 18 (Marks: 1) - Please choose one

A

coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

- ▶ 10.65%
- ▶ **10.45%**
- ▶ 10.95%
- ▶ 10.52%

Question No: 19 (Marks: 1) - Please choose one

_____ If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

- ▶ 7.00
- ▶ 6.53
- ▶ 8.53
- ▶ **7.18**

Question No: 20 (Marks: 1) - Please choose one

Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the _____ for the bonds is similar.

- ▶ Interest rate risk
- ▶ Market rate
- ▶ **Coupon rate**
- ▶ Inflation rate

Question No: 21 (Marks: 1) - Please choose one

When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?

- ▶ **Market interest rate < coupon interest rate, market value of bond is > par value**
- ▶ Market interest rate > coupon interest rate, market value of bond is > par value
- ▶ Market interest rate < coupon interest rate, market value of bond is < par value
- ▶ Market interest rate = coupon interest rate, market value of bond is > par value

Question No: 22 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

- ▶ **Market interest rate**
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ All of the given options

Question No: 23 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

Question No: 24 (Marks: 1) - Please choose one

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

- ▶ **A subordinated debenture**
- ▶ A debenture
- ▶ A junk bond
- ▶ An income bond

Question No: 25 (Marks: 1) - Please choose one

_____ A 12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?

- ▶ Rs. 87
- ▶ **Rs. 90**
- ▶ Rs. 102
- ▶ Rs. 112

Question No: 26 (Marks: 1) - Please choose one

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ Indenture
- ▶ Debenture
- ▶ Bond
- ▶ **Bond trustee**

Question No: 27 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ **Life span of the project**
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ Return on asset

Question No: 28 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ **Multiple internal rate of return**
- ▶ Modified internal rate of return
- ▶ Net present value

Question No: 29 (Marks: 1) - Please choose one

Why net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization

► **Because it has direct link with shareholders wealth maximization**

► Because it helps in quick judgment regarding the investment in real assets

► Because we have a simple formula to calculate the cash flows

Question No: 30 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- Cash flow from financing activity
- Cash flow from operating activity
- Cash flow from investing activity
- **All of the given options**

Question No: 31 (Marks: 1) - Please choose one

_____ An investment proposal should be judged in whether or not it provides:

- A return equal to the return require by the investor

- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

Question No: 32 (Marks: 1) - Please choose one

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

- ▶ Rs.253 million
- ▶ **Rs.323 million**
- ▶ Rs.380 million
- ▶ Rs.180 million

Question No: 33 (Marks: 1) - Please choose one

_____ An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

Question No: 34 (Marks: 1) - Please choose one

_____ As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 35 (Marks: 1) - Please choose one

_____ An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ **More than**
- ▶ Equal to
- ▶ Can not be found

Question No: 36 (Marks: 1) - Please choose one

_____ What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

- ▶ Rs.1000
- ▶ Rs.702.40
- ▶ **Rs.545.45**
- ▶ Rs.13,816

Question No: 37 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ **A cash outflow to repurchase the firm's own common stock**
- ▶ A cash outflow to lenders as interest
- ▶ A cash outflow to purchase bonds issued by another company

Question No: 38 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 39 (Marks: 1) - Please choose one

Which of the following statements is the least likely to be correct?

- ▶ A firm that has a high degree of business risk is less likely to want to incur financial risk
- ▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**
- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Question No: 40 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI

► The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 41 (Marks: 10)

You are a financial analyst for the Hittle Company. The director of capital budgeting has asked you to analyze two proposed capital investments Project X and Project Y. Each project has a cost of Rs. 10,000 and the cost of capital for both projects is 12%. The projects' expected cash flows are as follows:

Year	Expected net cash flows	
	Project X	Project Y
0	(10,000)	(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

- iv. Calculate each project's payback, net present value (NPV), internal rate of return (IRR), and profitability index (PI).

- v. Which project or projects should be accepted if they are independent?
- vi. Which project should be accepted if they are mutually exclusive?

ANSWER:

1. **Payback: PROJECT X:** Cost of project = Rs. 10,000
Payback period is the time required by the project to recover its costs.

Year 1 the project will recover Rs. 6,500

Year 2 the project will recover Rs 3000

Year 3 project will recover the remaining Rs. 500 in 1st month of 3rd yr. So payback period for Project X is 2 yrs and 1 month.

PROJECT Y: Cost of project= Rs 10,000

Year 1 project will recover Rs 3,500

Year 2 project will recover Rs 3,500

Year 3 project will recover remaining Rs 3000 in approximately 11 months of 3rd yr.

So payback period of project Y is 2 yrs and 11 months.

2. Net Present Value:

Project X: Initial investment, I_0 = Rs 10,000

Cash flow in yr 1, CF_1 = Rs 6500

Cash flow in yr 2, $CF_2 = \text{Rs } 3000$

Cash flow in yr 3, $CF_3 = \text{Rs } 3000$

Cash flow in yr 4, $CF_4 = \text{Rs } 1000$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 6500/(1.12) + 3000/(1.12)^2 + 3000/(1.12)^3 + 1000/(1.12)^4$$

$$= \text{Rs } 966$$

Project Y: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 3500$

Cash flow in yr 2, $CF_2 = \text{Rs } 3500$

Cash flow in yr 3, $CF_3 = \text{Rs } 3500$

Cash flow in yr 4, $CF_4 = \text{Rs } 3500$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 3500/(1.12) + 3500/(1.12)^2 + 3500/(1.12)^3 + 3500/(1.12)^4$$

$$= \text{Rs } 631$$

5. IRR: Project X: Put NPV = 0

$$NPV = -10000 + 6500/(1+i) + 3000/(1+i)^2 + 3000/(1+i)^3 + 1000/(1+i)^4$$

6. Profitability Index:

$$\text{Project X: PI} = \text{Sum}(CF_t/(1+i)^t)/I_0$$

$$= 10,966/10000 = 1.096$$

$$\text{Project Y : PI} = \text{Sum}(CF_t/(1+i)^t)/I_0$$

$$= 10631/10000 = 1.0631$$

Result: Since NPV and PI of project X are higher than that of project Y so Project X will be accepted.

MIDTERM EXAMINATION

An initial investment of Rs. 200,000 is required to start the business;
Rs. 9,000 per month is

expected to be earned for the first year and Rs. 20,000 would be earned every month in the second

year. How many months will it take to recover your initial investment?

- ▶ 14 months
- ▶ **16 months**
- ▶ 18 months
- ▶ 20 months

Question No: 2 (Marks: 1) - Please choose one

“Don’t put all eggs in one basket” explains _____ concept of finance.

- ▶ Time value of money
- ▶ Risk and Return
- ▶ Discounting and NPV
- ▶ **Portfolio Diversification**

Question No: 3 (Marks: 1) - Please choose one
_____ is equal to risk per unit return.

- ▶ Standard Deviation
- ▶ Variance
- ▶ **Coefficient of Variation**
- ▶ None of the given options

Ref:

[http://74.125.153.132/search?q=cache:57jrkpN0nqkJ:www.pitt.edu/~sc hlinge/fall99/19.doc+\"is+equal+to+risk+per+unit+return\"&cd=7&hl=en &ct=clnk&lr=lang_en](http://74.125.153.132/search?q=cache:57jrkpN0nqkJ:www.pitt.edu/~sc hlinge/fall99/19.doc+\)

Question No: 4 (Marks: 1) - Please choose one

A bond that pays no annual interest but is sold at a discount below the par value is called:

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond

▶ **A zero coupon bond**

Question No: 5 (Marks: 1) - Please choose one

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

- ▶ A zero growth common stock
- ▶ A positive growth common stock
- ▶ **A short-term bond**
- ▶ An option

Question No: 6 (Marks: 1) - Please choose one

An unincorporated business owned by one individual is called _____.

- ▶ Partnership
- ▶ Company
- ▶ **Sole proprietorship**
- ▶ None of given options

Question No: 7 (Marks: 1) - Please choose one

_____ is a ratio of the present value of future cash flows to the initial investment.

- ▶ Return on Investment
- ▶ NPV
- ▶ Payback Period
- ▶ **Profitability Index**

Question No: 8 (Marks: 1) - Please choose one

_____ is the actual price at which share is bought or sold.

- ▶ Fair price
- ▶ Par value
- ▶ **Market price**
- ▶ Written down value

Question No: 9 (Marks: 1) - Please choose one

_____ ratio gives an indication how equity investors regard the company's value.

- ▶ Price / Earning
- ▶ **Market / Book**
- ▶ Earning / Share
- ▶ Price / Cash flow

http://www.fiu.edu/~keysj/Financial_Statement_Analysis.doc

Question No: 10 (Marks: 1) - Please choose one

In the formula $r_{CE} = (D1V1/Po) + g$, what does $(D1V1/Po)$ represent?

- ▶ **The expected dividend yield from a common stock**
- ▶ The expected price appreciation yield from a common stock
- ▶ The dividend yield from a preferred stock
- ▶ The interest payment from a bond

Question No: 11 (Marks: 1) - Please choose one

For a given nominal interest rate, the more numerous the compounding periods, the less the effective annual interest rate.

- ▶ True
- ▶ **False**

Question No: 12 (Marks: 1) - Please choose one

The current ratio is never larger than the quick ratio.

- ▶ True
- ▶ **False**

if firm has more inventory it will be having large current ratio

Question No: 13 (Marks: 1) - Please choose one

When interest rates go up, the market price of a bond goes up.

- ▶ True
- ▶ **False**

Question No: 14 (Marks: 1) - Please choose one

Maximizing the price of a share of the firm's common stock is the equivalent of maximizing the

wealth of the firm's present owners.

▶ **True**

▶ False

Question No: 15 (Marks: 1) - Please choose one

You can reduce systematic risk by adding more common stocks to your portfolio.

▶ True

▶ **False**

Question No: 16 (Marks: 3)

Assume that one year from now; you will deposit Rs. 1,000 into a saving account that pays 8% interest. If the bank compounds interest semi-annually, how much will you have in your account four years from now?

$$FV = PV(1+i/m)^{mn}$$

$FV = 1000 (1.04)^6$ ($m*n = 2*3$ as we are depositing after one year so total years will be 3)

$$FV = 1265$$

Question No: 17 (Marks: 3)

How much should you pay for the preferred stock of the PST Corporation, if it has \$ 50 par value, pays \$20 a share in annual dividends, and your required rate of return is 15%.

$$=20/.15 = 133.33$$

Question No: 18 (Marks: 3)

What is a portfolio? Why an investor should invest his/her funds in a portfolio rather than in the stocks of a single corporation.

Question No: 19 (Marks: 3)

What do you mean by yield to maturity (YTM) of a bond? Explain briefly.

Question No: 20 (Marks: 3)

Explain briefly the Constant Growth Dividends Model of common stocks valuation.

Question No: 21 (Marks: 10)

Snyder Computer Chips Inc. is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a rate of 15% during the next 2 years, at 13% in the third year, and at a constant rate of 6% thereafter.

Snyder's last dividend was Rs. 1.15, and the required rate of return on the stock is 12%.

Required:

- I. Calculate the expected dividends of the firm in the first three years.
- II. Calculate the fair value per share of these stocks at the end of third year.

MIDTERM EXAMINATION

Spring 2009

MGT201- Financial Management (Session - 2)

Time: 60 min

Marks: 50

Question No: 1 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 2 (Marks: 1) - Please choose one

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ **One; one**
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

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- II) The stock's price
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► I and IV

► II and IV

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The firm can increase market price ► and P/E by retaining more earnings

The firm can increase market price ► and P/E by increasing the growth rate

The amount of earnings retained by ► the firm does not affect market price or the P/E

None of ► the given options

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The firm ► significantly decreases financial leverage

The firm ► increases return on equity for the long term

The ► level of inflation is expected to increase to double-digit levels

The rate ► of return on Treasury bills decreases

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A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

An ► anticipated earnings growth rate which is less than that of the average firm

A ► **dividend yield which is less than that of the average firm**

Less ► predictable earnings growth than that of the average firm

Greater cyclicality of earnings ► growth than that of the average firm

Question No: 9 (Marks: 1) - Please choose one

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

Real ► risk-free rate

Risk ► premium for stocks

Return on ► assets

Expected ► inflation rate

(no idea) Answer requested

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The market capitalization rate on the stock of Steel Company is 12%. The expected ROE is 13% and the expected EPS are Rs. 3.60. If the firm's plowback ratio is 50%, what will be the P/E ratio?

7.69 ►

8.33 ►

9.09 ►

11.11 ►

Question No: 11 (Marks: 1) - Please choose one

How dividend yield on a stock is similar to the current yield on a bond?

Both represent how much each ► security's price will increase in a year

Both represent the security's ► annual income divided by its price

Both are an accurate representation ► of the total annual return an investor can expect to earn by owning the security

Both incorporate the par value in ► their calculation

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Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

6.0% ►

4.8% ►

7.2% ►

3.0% ►

$\text{Growth} = \text{ROE} * \text{plow back ratio}$

Plowback ratio ratio that measures the amount of earnings retained after dividends have been paid out ($100\% - 40\% = 60\%$)

Let us plug in the value into above formula

$$10\% * .60 = 6\%$$

Question No: 13 (Marks: 1) - Please choose one

The value of direct claim security is derived from which of the following?

- Fundamental analysis
- **Underlying real asset**
- Supply and demand of securities in the market
- All of the given options

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- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

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When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity

► The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

► **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond

Question No: 17 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

- Pays interest on a regular basis (typically every six months)
- Does not pay interest on a regular basis but pays a lump sum at maturity
- Can always be converted into a specific number of shares of common stock in the issuing company
- Always sells at par

Question No: 18 (Marks: 1) - Please choose one

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

- **10.65%**

- ▶ 10.45%
- ▶ 10.95%
- ▶ 10.52%

In this we have to first calculate the price of bond first

$$=100*(1 + 0.12)^{-1}+100*(1 + 0.12)^{-2}+100*(1 + 0.12)^{-3}+1100*(1.12)^{-4} = 939.25$$

Current yield = coupon amount /Price of bond

$$100/939.25 =$$

So coupon payment for 4 year @ 10% = $100*4 = 400$

Plug the values in Current yield formula = $400/1000 = .1064 = 10.64\%$

Question No: 19 (Marks: 1) - Please choose one

If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

- ▶ 7.00
- ▶ 6.53
- ▶ 8.53
- ▶ 7.18

Current yield = annual interest payment/market price

$$(7\%*1000)/975 = 70/975 = 0.0719*100 = 7.18$$

Question No: 20 (Marks: 1) - Please choose one

Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the _____ for the bonds is similar.

- ▶ Interest rate risk
- ▶ Market rate
- ▶ Coupon rate
- ▶ Inflation rate

Question No: 21 (Marks: 1) - Please choose one

When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?

- ▶ **Market interest rate < coupon interest rate, market value of bond is > par value**
- ▶ Market interest rate > coupon interest rate, market value of bond is > par value
- ▶ Market interest rate < coupon interest rate, market value of bond is < par value
- ▶ Market interest rate = coupon interest rate, market value of bond is > par value

Reference:

Lecture 14 of handouts

Question No: 22 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

- ▶ Market interest rate
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ **All of the given options**

Reference:

Lecture 14 of handouts

[Visit](#)

Question No: 23 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets

► **Intangible assets**

► Fixed assets

► Real assets

Reference:

It can't be real asset as it's written in the handout. Real asset are also includes fixed asset and the fixed asset are tangible assets. Therefore only intangible asset are left. Intangible asset means something of value not physical, but for security of a bond, a physical asset is required.

Question No: 24 (Marks: 1) - Please choose one

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

► **A subordinated debenture**

► A debenture

► A junk bond

► An income bond

Reference:

http://wps.pearsoned.co.uk/wps/media/objects/1670/1710353/0273685988_ch20.ppt

Slide no. 7

Question No: 25 (Marks: 1) - Please choose one

<http://vustudents.ning.com>

A 12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?

- ▶ Rs. 87
- ▶ **Rs. 90 (doubt)**
- ▶ Rs. 102
- ▶ Rs. 112

Question No: 26 (Marks: 1) - Please choose one

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ **Indenture**
- ▶ Debenture
- ▶ Bond
- ▶ Bond trustee

Reference:

Lecture 13 of handouts

Question No: 27 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ **Life span of the project**
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ Return on asset

Reference:

[Lecture 12 of handouts](#)

Question No: 28 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ **Multiple internal rate of return**
- ▶ Modified internal rate of return
- ▶ Net present value

Reference:

Lecture 10 of handouts

Question No: 29 (Marks: 1) - Please choose one

Why net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ **Because it has direct link with shareholders wealth maximization**
- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

Reference:

Lecture 8 of handouts

Question No: 30 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- ▶ Cash flow from financing activity
- ▶ Cash flow from operating activity
- ▶ Cash flow from investing activity
- ▶ **All of the given options**

Reference:

All three activities gives information about cash flow received from sales revenue and other income.

Question No: 31 (Marks: 1) - Please choose one

An investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return require by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

Question No: 32 (Marks: 1) - Please choose one

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

- ▶ **Rs.253 million**
- ▶ Rs.323 million
- ▶ Rs.380 million
- ▶ Rs.180 million

$$PV = (350/1.085^4) = 252.55 \text{ or } 253$$

Question No: 33 (Marks: 1) - Please choose one

An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

PIFV * (1+i) as its due annuity so we have to add one extra (1+i)

$(PV=(R) (PVIFA \text{ at } 5\% \text{ for } 8 \text{ periods}) * (1.05) = \text{by plugging into value of PIFV} = [(1+i)^n - 1] / i * (1.05)$

$$= (1.05^8 - 1) / 0.05 * [(1.05)] = 10.02$$

$$= 1000 / 10.02 = 99.74$$

Point to note this is due annuity so we have to multiple extra (1+i) in formula of calculating PIFV

Question No: 34 (Marks: 1) - Please choose one

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**

- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 35 (Marks: 1) - Please choose one

An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ **More than**
- ▶ Equal to
- ▶ Can not be found

(It's worth $(1+i)$ times the value of the ordinary annuity with the same terms
Annuity due means you get the money at the beginning of the period, rather than the end, hence the times $1+i$ value is considered.

Question No: 36 (Marks: 1) - Please choose one

What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

- ▶ Rs.1000
- ▶ **Rs.702.40**
- ▶ Rs.545.45

► Rs.13,816

Working

$$PV = PMT * \frac{(1+i)^n - 1}{i}$$

Putting the values in formula:

$$\begin{aligned} PV &= 100 \{1 - (1 + .07)^{-10} / .07\} \\ &= 100 \{1 - (1.07)^{-10} / .07\} \\ &= 100 \{1 - .5083 / .07\} \\ &= 100(0.4916 / .07) \\ &= 100(7.024) \\ &= \text{Rs.}702.40 \end{aligned}$$

Question No: 37 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from a "financing" activity?

- A cash outflow to the government for taxes
- A cash outflow to repurchase the firm's own common stock

- ▶ A cash outflow to lenders as interest
- ▶ A cash outflow to purchase bonds issued by another company

Question No: 38 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 39 (Marks: 1) - Please choose one

Which of the following statements is the least likely to be correct?

- ▶ A firm that has a high degree of business risk is less likely to want to incur financial risk
- ▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**
- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Question No: 40 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

(low or declining accounts receivable turnover ratio indicates a collection problem, part of which may be due to bad debts. A low receivables turnover ratio means that the business should reexamine its credit policies to ensure the timely collection of imparted credit, which will help in earning interest for the firm.)

Question No: 41 (Marks: 10)

You are a financial analyst for the Hittle Company. The director of capital budgeting has asked you to analyze two proposed capital investments Project X and Project Y. Each project has a cost of Rs. 10,000 and the cost of capital for both projects is 12%. The projects' expected cash flows are as follows:

Year	Expected net cash flows	
	Project X	Project Y
0	(10,000)	(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

- i. Calculate each project's payback, net present value (NPV), internal rate of return (IRR), and profitability index (PI).
- ii. Which project or projects should be accepted if they are independent?
- iii. Which project should be accepted if they are mutually exclusive?

Solution

Pay back of project X:

$$\begin{aligned}\text{PP} &= \text{Cost of project} / \text{Annual cash inflows} \\ &= 10,000 / 3,375 \\ &= 2.96 \text{ or } 3\end{aligned}$$

Payback period of project Y

PP = Cost of project / Annual cash inflows

$$= 10,000 / 3500$$

$$= 2.85$$

NPV of project X

$$\text{NPV} = -I_0 + CF/(1+i) + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10000 + 6500/(1+.12) + 3000/(1+.12)^2 + 3000/(1+.12)^3 + 1000/(1+.12)^4$$

$$= -1000 + 5804 + 2392 + 2135 + 635.53$$

$$= -1000 + 10966.53$$

$$= 966.53$$

NPV for project Y

—

$$\text{NPV} = -I_0 + CF_1/(1+i) + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10000 + 3500/(1+.12) + 3500/(1+.12)^2 + 3500/(1+.12)^3 + 3500/(1+.12)^4$$

$$=-10000+3125+2790+2492+2224$$

$$=-10000+10631$$

$$= 631$$

IRR of project X

Same formula of NPV replacing “I” with “IRR” And Assuming NPV equal to zero.

$$NPV=-I_0+CF_1/(1+IRR)+CF_2/(1+IRR)^2+CF_3/(1+IRR)^3+Cf_4/(1+IRR)^4$$

$$0=-10000+6500/(1+.18)+3000/(1+.18)^2+3000/(1+.18)^3+1000/(1+.18)^4$$

$$0=-10000+10000$$

Left hand side =Right hand side

So 18% is IRR rate where NPV becomes zero

Profitability Index for Project X

$$PI = \Sigma CF/(1+i)/I_0$$

$$= 10699.53/10000$$

$$=109.7 > 1.0$$

Profitability index for Project Y

$$PI = \Sigma CF/(1+i)/I_0$$

$$=10631/10000$$

$$=1.06 > 1.0$$

MIDTERM EXAMINATION

Spring 2009

MGT201- Financial Management (Session - 4)

Time: 60 min

Marks: 50

Question No: 1 (Marks: 1) - Please choose one

What are the earnings per share (EPS) for a company that earned Rs.100, 000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

- ▶ Rs.1.00
- ▶ Rs. 6.00
- ▶ **Rs. 0.50**
- ▶ Rs. 6.50

Question No: 2 (Marks: 1) - Please choose one

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ **Shareholder; manager**
- ▶ Manager; owner
- ▶ Accountant; bondholder
- ▶ Shareholder; bondholder

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Question No: 3 (Marks: 1) - Please choose one

Which of the following is equal to the average tax rate?

- ▶ **Total tax liability divided by taxable income**
- ▶ Rate that will be paid on the next dollar of taxable income
- ▶ Median marginal tax rate
- ▶ Percentage increase in taxable income from the previous period

Question No: 4 (Marks: 1) - Please choose one

Which of the following would be deductible as an expense on the corporation's income statement?

- ▶ **Interest paid on outstanding bonds**
- ▶ Cash dividends paid on outstanding common stock
- ▶ Cash dividends paid on outstanding preferred stock
- ▶ All of the given options

Question No: 5 (Marks: 1) - Please choose one

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

▶ **Its corresponding base year balance sheet item; its corresponding base year income statement item**

- ▶ Its corresponding base year income statement item; its corresponding base

year balance sheet item

- ▶ Net sales or revenues; total assets
- ▶ Total assets; net sales or revenues

Question No: 6 (Marks: 1) - Please choose one

Which group of ratios measures a firm's ability to meet short-term obligations?

- ▶ **Liquidity ratios**
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 7 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 8 (Marks: 1) - Please choose one

Interest paid on the original principal borrowed is often referred to as _____.

- ▶ Compound interest
- ▶ Present value
- ▶ **Simple interest**
- ▶ Future value

Question No: 9 (Marks: 1) - Please choose one

If the following are the balance sheet changes, which one of them would represent use of funds by a company?

- ▶ Rs. 8,950 decrease in net fixed assets
- ▶ Rs. 5,005 decrease in accounts receivable
- ▶ Rs. 10,001 increase in accounts payable
- ▶ **Rs. 12,012 decrease in notes payable**

Question No: 10 (Marks: 1) - Please choose one

In preparing a forecast balance sheet, it is likely that either cash or _____ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

- ▶ Retained earnings
- ▶ Accounts receivable

- ▶ Shareholders' equity
- ▶ Notes payable (short-term borrowings)

Question No: 11 (Marks: 1) - Please choose one

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

- ▶ Rs.5,850
- ▶ Rs.4,872
- ▶ Rs.6,725
- ▶ Rs.1,842

$$PV = 8000/(1+.11)^3$$

Question No: 12 (Marks: 1) - Please choose one

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8%.

- ▶ Rs.680.58
- ▶ Rs.1,462.23
- ▶ Rs.322.69
- ▶ Rs.401.98

$$PV = 1000/(1+.08)^5$$

Question No: 13 (Marks: 1) - Please choose one

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 14 (Marks: 1) - Please choose one

The benefit we expect from a project is expressed in terms of:

- ▶ **Cash in flows**
- ▶ Cash out flows
- ▶ Cash flows
- ▶ None of the given options

Question No: 15 (Marks: 1) - Please choose one

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ **Project A & B**

Question No: 16 (Marks: 1) - Please choose one

If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ▶ Interpolation
- ▶ **Dividing 100,000 by 36,000**
- ▶ Dividing 36,000 by 100,000
- ▶ Insufficient information

If the cash-flow stream is a uniform series of inflows (an annuity) and the initial outflow occurs at time 0, there is no need for a trial and error approach. We simply divide the initial cash outflow by the periodic receipt and search for the nearest discount factor in a table of present value interest factors of an annuity (PVIFAs).

Question No: 17 (Marks: 1) - Please choose one

In which of the following situations you can expect multiple answers of IRR?

- ▶ More than one sign change taking place in cash flow diagram
- ▶ There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
- ▶ During the life of project if you have any net cash outflow
- ▶ All of the given options

Question No: 18 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ **Multiple internal rate of return**
- ▶ Modified internal rate of return
- ▶ Net present value

Question No: 19 (Marks: 1) - Please choose one

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable

▶ **Cash flows from the asset becomes more predictable**

▶ Cash inflows from the asset becomes more predictable

▶ Cash outflows from the asset becomes more predictable

Question No: 20 (Marks: 1) - Please choose one

Which one of the following is **NOT** the disadvantage of the asset with very short life?

▶ Money has to be reinvested in some other project with uncertain NPV

▶ Money has to be reinvested in some other project with certain NPV

▶ Money has to be reinvested in some other project with return so risky

▶ **None of the given options**

Question No: 21 (Marks: 1) - Please choose one

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

▶ **Profitability index (PI)**

▶ Net present value (NPV)

▶ Internal rate of return (IRR)

- ▶ Payback period (PBP)

Question No: 22 (Marks: 1) - Please choose one

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option
- ▶ **Call provision**
- ▶ Put option

Call Provision:

The right (or option) of the Issuer to call back (redeem) or retire the bond by paying-off the Bondholders before the Maturity Date. When market interest rates drop, Issuers (or Borrowers) often call back the old bonds and issue new ones at lower interest rates.

Question No: 23 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

► **Pays interest on a regular basis (typically every six months)**

- Does not pay interest on a regular basis but pays a lump sum at maturity
- Can always be converted into a specific number of shares of common stock in the issuing company
- Always sells at par

Rationale: A coupon bond will pay the coupon rate of interest on a semiannual basis unless the firm defaults on the bond. Convertible bonds are specific types of bonds.

Question No: 24 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- The coupon rate is greater than yield to maturity
- The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Rationale: In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Question No: 25 (Marks: 1) - Please choose one

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

- ▶ **Equal to zero**
- ▶ Greater than zero
- ▶ Equal to the sum of the securities' standard deviations
- ▶ Equal to -1

Question No: 26 (Marks: 1) - Please choose one

How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

Question No: 27 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of hybrid equity?

- ▶ Convertible bonds

► Convertible debenture

► **Common shares**

► Preferred shares

A security that combines two or more different financial instruments. Hybrid securities generally combine both debt and equity characteristics. The most common example is a convertible bond that has features of an ordinary bond, but is heavily influenced by the price movements of the stock into which it is convertible.

Question No: 28 (Marks: 1) - Please choose one

The value of dividend is derived from which of the following?

► **Cash flow streams**

► Capital gain /loss

► Difference between buying & selling price

► All of the given options

Rationale option 2 can not because it represents capital gain/loss which has nothing to do with dividends

option 3 also represent capital gain/loss

Question No: 29 (Marks: 1) - Please choose one

How dividend yield on a stock is similar to the current yield on a bond?

- ▶ Both represent how much each security's price will increase in a year
- ▶ **Both represent the security's annual income divided by its price**
- ▶ Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- ▶ Both incorporate the par value in their calculation

Question No: 30 (Marks: 1) - Please choose one

The market capitalization rate on the stock of Fast Growing Company is 20%. The expected ROE is 22% and the expected EPS is Rs. 6.10. If the firm's plowback ratio is 90%, the P/E ratio will be _____.

▶ 8.33

▶ **50.0**

▶ 9.09

▶ 7.69

market capitalization rate A rate of return on investment based on the expected income.

P/E The most common measure of how expensive a stock is. The P/E ratio is equal to a stock's market capitalization divided by its after-tax earnings

$K = \text{Capitalization Rate} = 20\%$

Price over earning ratio:

Here is formula for {P/E}

$P/E = (1-b) / K-G$

G = growth Rate

where $G = ROE * b$

b = plow back ratio. Or retained earning (money which is reinvested in company)

$g = ROE * b = .22 * .9 = .198$

by plugging the values in p/e formula
 $(1 - .9) / (.20 - .198) = 50$

Question No: 31 (Marks: 1) - Please choose one

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate? <http://vustudents.ning.com>

- ▶ Real risk-free rate
- ▶ Risk premium for stocks
- ▶ **Return on assets**
- ▶ Expected inflation rate

Rationale: A, B, and D are incorporated into the discount rate used in the dividend discount model.

Question No: 32 (Marks: 1) - Please choose one

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

- ▶ An anticipated earnings growth rate which is less than that of the average firm
- ▶ **A dividend yield which is less than that of the average firm**
- ▶ Less predictable earnings growth than that of the average firm
- ▶ Greater cyclicalities of earnings growth than that of the average firm

Rationale: Firms with lower than average dividend yields are usually growth firms, which have a higher P/E ratio than average.

Question No: 33 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

Systematic risk is not avoidable through diversification

Question No: 34 (Marks: 1) - Please choose one

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

- ▶ %
- ▶ Times
- ▶ Number of days
- ▶ All of the given options

Question No: 35 (Marks: 1) - Please choose one

A well-diversified portfolio is defined as:

► **One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero**

- One that contains securities from at least three different industry sectors
- A portfolio whose factor beta equals 1.0
- A portfolio that is equally weighted

Rationale: A well-diversified portfolio is one that contains a large number of securities, each having a small (but not necessarily equal) weight, so that nonsystematic variance is negligible

Question No: 36 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of unsystematic risk.

- New competitors
- New product management
- **Worldwide inflation**
- Strikes

Question No: 37 (Marks: 1) - Please choose one

You are considering two investment proposals, project A and project B. B's

expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

- ▶ Project A dominates project B
- ▶ Project B dominates project A
- ▶ Neither project dominates the other in terms of risk and return
- ▶ Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

Question No: 38 (Marks: 1) - Please choose one

Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ All of the given options

Question No: 39 (Marks: 1) - Please choose one

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ **Sunk cost**
- ▶ Opportunity cost
- ▶ Non-cash item

Question No: 40 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Question No: 41 (Marks: 10)

ICO Company must decide between two mutually exclusive projects. The following information describes the cash flows of each project.

Year	Project "A"	Project "B"
0	Rs. (20,000)	Rs. 24,000

1	10,000	10,000
2	8,000	10,000
3	6,000	10,000

- a. Assume that 15% is the appropriate required rate of return. What decision should the firm make about these two projects?
- b. If the firm reevaluated these projects at 10%, what decision should the firm make about these two projects?

Part a:

Calculate the NPVs

Project A: $-\$20,000 + \$10,000/(1.15)^1 + \$8,000/(1.15)^2 + \$6,000/(1.15)^3 = -\$1,310.10$.

Project B: $-\$24,000 + \$10,000/(1.15)^1 + \$10,000/(1.15)^2 + \$10,000/(1.15)^3 = -\$1,167.75$.

Reject BOTH projects as decreasing shareholder wealth.

Part b: Calculate the NPVs

Project A: $-\$20,000 + \$10,000/(1.1)^1 + \$8,000/(1.1)^2 + \$6,000/(1.1)^3 = \$210.37$.

Project B: $-\$24,000 + \$10,000/(1.1)^1 + \$10,000/(1.1)^2 + \$10,000/(1.1)^3 = \$868.52$.

Accept project "B" as it increases shareholder wealth the greatest.

MIDTERM EXAMINATION**Fall 2009****MGT201- Financial Management (Session - 4)****Question No: 1 (Marks: 1) - Please choose one**

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ Shareholder; manager
- ▶ Manager; owner
- ▶ Accountant; bondholder
- ▶ Shareholder; bondholder

Question No: 2 (Marks: 1) - Please choose one

What should be the focal point of financial management in a firm?

- ▶ The number and types of products or services provided by the firm
- ▶ The minimization of the amount of taxes paid by the firm
- ▶ The creation of value for shareholders
- ▶ The dollars profits earned by the firm

Question No: 3 (Marks: 1) - Please choose one

Which of the following financial market is referred to the market for short-term government and corporate debt securities?

- ▶ Money market
- ▶ Capital market
- ▶ Primary market
- ▶ Secondary market

Question No: 4 (Marks: 1) - Please choose one

Which of the following would generally have unlimited liability?

- ▶ A limited partner in a partnership
- ▶ A shareholder in a corporation
- ▶ The owner of a sole proprietorship
- ▶ A member in a limited liability company (LLC)

Question No: 5 (Marks: 1) - Please choose one

Which of the following is a major disadvantage of the corporate form of organization?

- ▶ Double taxation of dividends

- ▶ Inability of the firm to raise large sums of additional
- ▶ Limited liability of shareholders
- ▶ Limited life of the corporate form

Question No: 6 (Marks: 1) - Please choose one

Which of the following statement is most accurate?

- ▶ Coverage ratios also shed light on the "liquidity" of current ratios
- ▶ Receivable- and inventory-based activity ratios also shed light on the "liquidity" of current assets
- ▶ Receivable- and inventory-based activity ratios also shed light on the firm's use of financial leverage
- ▶ Liquidity ratios also shed light on the firm's use of financial leverage

Question No: 7 (Marks: 1) - Please choose one

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

- ▶ Incomplete information
- ▶ Fall
- ▶ Rise
- ▶ Remain unchanged

Question No: 8 (Marks: 1) - Please choose one

You are going to invest Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?

- ▶ Rs.14,491
- ▶ Rs.14,518
- ▶ Incomplete information
- ▶ Rs.14,460

Rationale:

$$30\text{months} = 2.5 \text{ year}$$
$$FV = \text{amt} * (1+i)^n = 12500(1.06)^{2.5} = 14460$$

Question No: 9 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ A cash outflow to repurchase the firm's own common stock
- ▶ A cash outflow to lenders as interest
- ▶ A cash outflow to purchase bonds issued by another company

Question No: 10 (Marks: 1) - Please choose one

In estimating "after-tax incremental operating cash flows" for a project, you should include all of the following **EXCEPT** _____.

- ▶ Changes in costs due to a general appreciation in those costs
- ▶ The amount (net of taxes) that we could realize from selling a currently unused building of ours that we intend to use for our project
- ▶ Changes in working capital resulting from the project, net of spontaneous changes in current liabilities
- ▶ Costs that have previously been incurred that are unrecoverable

Question No: 11 (Marks: 1) - Please choose one

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

- ▶ Include sunk costs, but ignore opportunity costs
- ▶ Include opportunity costs, but ignore sunk costs
- ▶ Ignore both opportunity costs and sunk costs
- ▶ Include both opportunity and sunk costs

Question No: 12 (Marks: 1) - Please choose one

Interest payments, principal payments, and cash dividends are _____ the typical budgeting cash-flow analysis because they are _____ cash flows.

- ▶ Included in; financing

▶ Excluded from; financing

▶ Included in; operating

▶ Excluded from; operating

Question No: 13 (Marks: 1) - Please choose one

Why Payback period is a poor gauge of profitability?

▶ It ignores the time value of money

▶ It gives rough indication to the liquidity of the project

▶ It does not consider cash flows after expiration of the payback period

▶ All of the given options

Question No: 14 (Marks: 1) - Please choose one

To estimate an unknown number that lies between two known numbers is known as _____.

▶ Capital rationing

▶ Capital budgeting

▶ Interpolation

▶ Amortization

In the mathematical subfield of numerical analysis, interpolation is a method of constructing new data points within the range of a discrete set of known data points.

Question No: 15 (Marks: 1) - Please choose one

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ Choose all projects with a positive NPV crrrrrrr
- ▶ Group projects together to allocate the funds available and select the group of projects with the highest NPV
- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

Question No: 17 (Marks: 1) - Please choose one

The sinking fund retirement of a bond issue takes _____.

- ▶ Only one form -- the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee

▶ Only one form -- the corporation pays cash to the trustee, who in turn calls the bonds for redemption

▶ Only one form -- bonds mature periodically and the corporation retires them in the order that they mature

▶ Two forms -- (1) the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee; or (2) the corporation pays cash to the trustee, who in turn calls the bonds for redemption

Question No: 18 (Marks: 1) - Please choose one

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

▶ Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date

▶ Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

▶ Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity

▶ None of the above are correct since a serial bond is identical to a sinking fund bond

Question No: 19 (Marks: 1) - Please choose one

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

▶ A subordinated debenture

▶ A debenture

▶ A junk bond

▶ An income bond

Question No: 20 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

▶ Tangible assets

▶ Intangible assets

▶ Fixed assets

▶ Real assets

Question No: 21 (Marks: 1) - Please choose one

Which of the following is **NOT** the present value of the bond?

► Intrinsic value

► Market price

► Fair price

► Theoretical price

not sure about this answer.

Question No: 22 (Marks: 1) - Please choose one

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

► 10.65%

► 10.45%

► 10.95%

► 10.52%

In this we have to first calculate the price of bond first
$$= 100 \times (1 + 0.12)^{-1} + 100 \times (1 + 0.12)^{-2} + 100 \times (1 + 0.12)^{-3} + 1100 \times (1.12)^{-4} = 939.25$$

Current yield = coupon amount / Price of bond

$100 / 939.25 =$

So coupon payment for 4 year @ 10% = $100 \times 4 = 400$

Plug the values in Current yield formula = $400 / 1000 = .1064 = 10.64\%$

Question No: 23 (Marks: 1) - Please choose one

A coupon bond that pays interest annually is selling at par value of Rs.1,000, matures in 5 years, and has a coupon rate of 9%. What is the yield to maturity on this bond?

- ▶ 8.0%
- ▶ 8.3%
- ▶ 9.0%
- ▶ 10.0%

Rationale: When a bond sells at par value, the coupon rate is equal to the yield to maturity

Question No: 24 (Marks: 1) - Please choose one

What is yield to maturity on a bond?

- ▶ It is below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium
- ▶ The discount rate that will set the present value of the payments equal to the bond price
- ▶ It is based on the assumption that any payments received are reinvested at the coupon rate
- ▶ None of the given options

Question No: 25 (Marks: 1) - Please choose one

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ **Market value**
- ▶ Intrinsic value
- ▶ Face value

Question No: 26 (Marks: 1) - Please choose one

The value of direct claim security is derived from which of the following?

- ▶ Fundamental analysis
- ▶ **Underlying real asset**
- ▶ Supply and demand of securities in the market
- ▶ All of the given options

Question No: 27 (Marks: 1) - Please choose one

Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

- ▶ **6.0%**
- ▶ 4.8%

► 7.2%

► 3.0%

Growth = ROE * plow back ratio

Plowback ratio ratio that measures the amount of earnings retained after dividends have been paid out (100%-40% = 60%)

Let us plug in the value into above formula

$$10\% * .60 = 6\%$$

Question No: 28 (Marks: 1) - Please choose one

How dividend yield on a stock is similar to the current yield on a bond?

- Both represent how much each security's price will increase in a year
- Both represent the security's annual income divided by its price
- Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- Both incorporate the par value in their calculation

Question No: 29 (Marks: 1) - Please choose one

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- Real risk-free rate

- ▶ Risk premium for stocks
- ▶ Return on assets
- ▶ Expected inflation rate

not sure about this

Question No: 30 (Marks: 1) - Please choose one

Total portfolio risk is _____.

- ▶ Equal to systematic risk plus non-diversifiable risk
- ▶ Equal to avoidable risk plus diversifiable risk
- ▶ Equal to systematic risk plus unavoidable risk
- ▶ Equal to systematic risk plus diversifiable risk

Question No: 31 (Marks: 1) - Please choose one

The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as _____.

- ▶ A probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 32 (Marks: 1) - Please choose one

A well-diversified portfolio is defined as:

- ▶ One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero
- ▶ One that contains securities from at least three different industry sectors
- ▶ A portfolio whose factor beta equals 1.0
- ▶ A portfolio that is equally weighted

Question No: 33 (Marks: 1) - Please choose one

If a company intends to start a new project, _____ technique are employed to assess the financial viability of the project.

- ▶ Financial planning
- ▶ Financial forecasting
- ▶ Capital budgeting
- ▶ Capital rationing

from handouts

if a company intends to start a new project, Capital Budgeting techniques are employed to assess the financial viability of the project.

Question No: 34 (Marks: 1) - Please choose one

Capital budgeting is a decentralized function assigned to:

- ▶ Individuals
- ▶ Departments
- ▶ Teams
- ▶ All of the given options

Not sure about the answer

Question is bit ambiguous, if we take Dept. correct option, then “team” option is violated.

from handouts

Capital budgeting is a decentralized function. In big corporations, this function is not an individual's job, rather, different departments and teams are assigned to work on different aspects of capital budgeting.

Question No: 35 (Marks: 1) - Please choose one

The biggest challenge in capital budgeting is to keep finding:

- ▶ Valuable projects
- ▶ Sources of funds

- ▶ Blue chips
- ▶ Fixed assets

from handouts

The biggest challenge in capital budgeting is to keep finding the valuable projects, i.e., projects that may add to the value of the firm. You must be familiar with the basic objective of financial management

Question No: 36 (Marks: 1) - Please choose one

The objective of financial management is to maximize _____ wealth.

- ▶ Stakeholders
- ▶ Shareholders
- ▶ Bondholders
- ▶ Directors

Question No: 37 (Marks: 1) - Please choose one

Information that goes into _____ can be used to prepare _____.

- ▶ A forecast balance sheet; a forecast income statement
- ▶ Forecast financial statements; a cash budget
- ▶ Cash budget; forecast financial statements
- ▶ A forecast income statement; a cash budget

Question No: 38 (Marks: 1) - Please choose one

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ Project A & B

Question No: 39 (Marks: 1) - Please choose one

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

- ▶ Rs.680.58
- ▶ Rs.1,462.23
- ▶ Rs.322.69
- ▶ Rs.401.98

$$PV = \text{amt} / (1+i)^n$$

$$PV = 1000/(1+.08)^5 = 680.53$$

Question No: 40 (Marks: 1) - Please choose one

What is the present value of Rs.6,500 to be paid at the end of 8 years if the interest rate is 10% compounded annually?

▶ Rs.3,032

▶ Rs.3,890

▶ Rs.3,190

▶ Rs.4,301

$$PV = \text{amt} / (1+i)^n$$

$$PV = 6500/(1+.10)^8 = 3032.29$$

Question No: 41 (Marks: 5)

Suppose Ali Inc. issues ten-year bonds (par Rs. 1,000) with an annual coupon of 8.6%. Similar ten-year bonds are paying 8.0% interest. What is the value of one Ali's new bonds that is, what should be its price?

$$\text{Bond Price} = PV(\text{all inflows}) + PV(\text{face value})$$

So in this case

$$\text{Bond Price} = \text{PV}(\text{of all coupon payments}) + \text{PV}(1000)$$

as bond will pay same amount for the next 10 year assume it annuity so we use annuity formula if some one get this formula he/she can try manually PV for every year for ten years.

$$8.6\% \text{ of one thousand} = 1000 * .086 = 86$$

Which he gets every year as coupon payment

$$\text{PV} = \text{Amt} * \text{PVIF} = [1 - (1+i)^{-n}] / i$$

$$i = 8\%$$

$$\text{price} = 86 * [(1 - (1.08)^{-10}) / .08] + (1000 / 1.08)^{10}$$

$$\text{price} = 577.0670003 + 463.1934881 = 1040.260488$$

$$= 1040.26$$

Question No: 42 (Marks: 5)

Draw a three year time line which illustrates the following situation:

- i. An outflow of Rs. 10,000 occurs at time 0
- ii. Inflows of Rs. 5,000 occur at the end of year 1, 2 and 3.

- iii. The interest rate during the three year is 10%.

MIDTERM EXAMINATION MGT201- Financial Management (Session - 3)

Question No: 1 (Marks: 1) - Please choose one

What are the earnings per share (EPS) for a company that earned Rs.100, 000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

- ▶ Rs.1.00
- ▶ Rs. 6.00
- ▶ Rs. 0.50
- ▶ Rs. 6.50

Question No: 2 (Marks: 1) - Please choose one

Who determines the market price of a share of common stock?

- ▶ Individuals buying and selling the stock
- ▶ The board of directors of the firm
- ▶ The stock exchange on which the stock is listed
- ▶ The president of the company

Question No: 3 (Marks: 1) - Please choose one

Which of the following statements is correct for a sole proprietorship?

- ▶ The sole proprietor has limited liability
- ▶ The sole proprietor can easily dispose of their ownership position relative to a shareholder in a corporation
- ▶ The sole proprietorship can be created more quickly than a corporation
- ▶ The owner of a sole proprietorship faces double taxation unlike the partners in a partnership

Question No: 4 (Marks: 1) - Please choose one

Which of the following market refers to the market for relatively long-term financial instruments?

- ▶ Secondary market
- ▶ Primary market
- ▶ Money market
- ▶ Capital market

for more contents visit

Question No: 5 (Marks: 1) - Please choose one

Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5 percent. What are its sales?

- ▶ 750,0Rs.3, 750,000
- ▶ Rs.48Rs.480, 000
- ▶ Rs.30Rs.300, 000
- ▶ Rs.1, Rs.1, 500,000

Question No: 6 (Marks: 1) - Please choose one

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE =$ _____.

- ▶ Net profit margin $\times$ Total asset turnover $\times$ Equity multiplier
- ▶ Total asset turnover $\times$ Gross profit margin $\times$ Debt ratio
- ▶ Total asset turnover $\times$ Net profit margin
- ▶ Total asset turnover $\times$ Gross profit margin $\times$ Equity multiplier

Question No: 7 (Marks: 1) - Please choose one

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

- ▶ Its corresponding base year balance sheet item; its corresponding base year income statement item
- ▶ Its corresponding base year income statement item; its corresponding base year balance sheet item
- ▶ Net sales or revenues; total assets
- ▶ Total assets; net sales or revenues

Question No: 8 (Marks: 1) - Please choose one

Which group of ratios shows the extent to which the firm is financed with debt?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ Profitability ratios

Question No: 9 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from an "operating activity"?

- ▶ Cash outflow to the government for taxes
- ▶ Cash outflow to shareholders as dividends
- ▶ Cash inflow to the firm from selling new common equity shares
- ▶ Cash outflow to purchase bonds issued by another company

Question No: 10 (Marks: 1) - Please choose one

An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ More than
- ▶ Equal to
- ▶ Can not be found

Question No: 11 (Marks: 1) - Please choose one

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- ▶ Payback period
- ▶ Internal rate of return
- ▶ Net present value
- ▶ Profitability index

Question No: 12 (Marks: 1) - Please choose one

If the cash flow stream for a project is **NOT** a uniform series of inflows and initial outflow occur at time 0. 15% discount rate produces a resulting present value of

Rs. 104,000 that is greater than the initial cash outflow of Rs. 100,000. Now if we want to calculate the best discount rate:

- ▶ We need to try a higher discount rate
- ▶ We need to try a lower discount rate
- ▶ 15% is the best discount rate
- ▶ Interpolation is not required here

Question No: 13 (Marks: 1) - Please choose one

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars
- ▶ In terms of Percentages
- ▶ Intuitively
- ▶ Logically

Question No: 14 (Marks: 1) - Please choose one

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- ▶ All of the given options

Question No: 15 (Marks: 1) - Please choose one

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ Choose all projects with a positive NPV
- ▶ Group projects together to allocate the funds available and select the group of projects with the highest NPV
- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

Question No: 16 (Marks: 1) - Please choose one

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ Profitability index (PI)
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

Question No: 17 (Marks: 1) - Please choose one

Due to timing difference problem, a good project might suffer from _____ IRR even though its NPV is _____.

- ▶ Higher; Lower
- ▶ Lower; Lower
- ▶ Lower; Higher
- ▶ Higher; Higher

Question No: 18 (Marks: 1) - Please choose one

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

- ▶ Long-term debt
- ▶ Preferred stock
- ▶ Common stock
- ▶ None of the given option

Question No: 19 (Marks: 1) - Please choose one

Market price of the bond changes according to which of the following reasons?

- ▶ Market price changes due to the supply –demand of the bond in the market
- ▶ Market price changes due to Investor's perception
- ▶ Market price changes due to change in the interest rate
- ▶ All of the given options

Question No: 20 (Marks: 1) - Please choose one

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option
- ▶ Call provision

- ▶ Put option

Question No: 21 (Marks: 1) - Please choose one

The value of a bond is directly derived from which of the following?

- ▶ Cash flows
- ▶ Coupon receipts
- ▶ Par recovery at maturity
- ▶ All of the given options

Question No: 22 (Marks: 1) - Please choose one

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

- ▶ Intrinsic value
- ▶ Book value
- ▶ Par value
- ▶ Historic cost

Question No: 23 (Marks: 1) - Please choose one

What is yield to maturity on a bond?

- ▶ It is below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium
- ▶ The discount rate that will set the present value of the payments equal to the bond price
- ▶ It is based on the assumption that any payments received are reinvested at the coupon rate
- ▶ None of the given options

Question No: 24 (Marks: 1) - Please choose one

Consider a 5-year bond with a 10% coupon that has a present yield to maturity of 8%. If interest rates remain constant, one year from now, what will be the price of this bond?

- ▶ Higher
- ▶ Lower
- ▶ The same
- ▶ Rs. 1,000

Question No: 25 (Marks: 1) - Please choose one

If all things equal, when diversification is most effective?

- ▶ Securities' returns are positively correlated
- ▶ Securities' returns are uncorrelated
- ▶ Securities' returns are high
- ▶ Securities' returns are negatively correlated

Question No: 26 (Marks: 1) - Please choose one

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ Market value
- ▶ Intrinsic value
- ▶ Face value

Question No: 27 (Marks: 1) - Please choose one

Which of the following has **NO** effect when the financial health (cash flows and income) of the company changes with time?

- ▶ Market value
- ▶ Price of the share
- ▶ Par value
- ▶ None of the given options

Question No: 28 (Marks: 1) - Please choose one

The value of dividend is derived from which of the following?

- ▶ Cash flow streams
- ▶ Capital gain /loss
- ▶ Difference between buying & selling price
- ▶ All of the given options

Question No: 29 (Marks: 1) - Please choose one

You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X:

- ▶ Will be greater than the intrinsic value of stock Y
- ▶ Will be the same as the intrinsic value of stock Y
- ▶ Will be less than the intrinsic value of stock Y
- ▶ Cannot be calculated without knowing the market rate of return

Question No: 30 (Marks: 1) - Please choose one

Total portfolio risk is _____.

- ▶ Equal to systematic risk plus non-diversifiable risk
- ▶ Equal to avoidable risk plus diversifiable risk
- ▶ Equal to systematic risk plus unavoidable risk
- ▶ Equal to systematic risk plus diversifiable risk

Question No: 31 (Marks: 1) - Please choose one

The wider the range of possible outcomes i.e. _____.

- ▶ The greater the variability in potential Returns that can occur, the greater the Risk
- ▶ The greater the variability in potential Returns that can occur, the lesser the Risk
- ▶ The greater the variability in potential Returns that can occur, the level of risk remain constant
- ▶ None of the given options

Question No: 32 (Marks: 1) - Please choose one

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

Question No: 33 (Marks: 1) - Please choose one

Which of the following statements regarding covariance is **CORRECT**?

- ▶ Covariance always lies in the range -1 to +1
- ▶ Covariance, because it involves a squared value, must always be a positive number (or zero)
- ▶ Low covariances among returns for different securities leads to high portfolio risk
- ▶ Covariances can take on positive, negative, or zero values

Question No: 34 (Marks: 1) - Please choose one

Which of the following is **NOT** a major cause of systematic risk.

- ▶ A worldwide recession
- ▶ A world war
- ▶ World energy supply
- ▶ Company management change

Question No: 35 (Marks: 1) - Please choose one

Finance consists of three interrelated areas:

- ▶ Money and capital market
- ▶ Investment
- ▶ Financial management
- ▶ All of the given options

Question No: 36 (Marks: 1) - Please choose one

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ One; one
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

Question No: 37 (Marks: 1) - Please choose one

At the termination of the project we need to take into account:

- ▶ Salvage value
- ▶ Book value

- ▶ Intrinsic value
- ▶ Fair value

Question No: 38 (Marks: 1) - Please choose one

In which of the following approach you need to bring all the projects to the same length in time?

- ▶ MIRR approach
- ▶ Going concern approach
- ▶ Common life approach
- ▶ Equivalent annual approach

Question No: 39 (Marks: 1) - Please choose one

Assume a company had Rs.1 billion in free cash flow last year, and it is expected to grow that cash flow at 3% into perpetuity. Assuming a 9% cost of equity, what is the present value of the company?

- ▶ Rs.12.08 billion
- ▶ Rs.18.15 billion
- ▶ Rs.14.16 billion
- ▶ Rs.16.67 billion

Question No: 40 (Marks: 1) - Please choose one

What is the most important criteria in capital budgeting?

- ▶ Profitability index
- ▶ Net present value
- ▶ Pay back period
- ▶ Return on investment

Question No: 41 (Marks: 5)

Explain why financial planning is important to today's chief executives?

Question No: 42 (Marks: 5)

How risk and expected return is compared in two distributions?

MIDTERM EXAMINATION

MGT201- Financial Management (Session - 2)

Question No: 1 (Marks: 1) - Please choose one

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Companies invest in projects with negative NPV because there is a hidden value in each project

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Question No: 2 (Marks: 1) - Please choose one

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ **One; one**
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

Mutually Exclusive: means that you can invest in ONE of the investment choices and having chosen one you cannot choose another

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Question No: 3 (Marks: 1) - Please choose one

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

It is basically the weighted average or mean of the expected return of the individual investments in the portfolio.

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Question No: 4 (Marks: 1) - Please choose one

_____ A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

► **Probability distribution**

- the expected return
- The standard deviation
- Coefficient of variation

Question No: 5 (Marks: 1) - Please choose one

_____ The present value of growth opportunities (PVGO) is equal to

- IX) The difference between a stock's price and its no-growth value per share
- X) The stock's price
- XI) Zero if its return on equity equals the discount rate
- XII) The net present value of favorable investment opportunities

- I and IV

► **II and IV**

- I, III, and IV
- II, III, and IV

Question No: 6 (Marks: 1) - Please choose one

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

☒ **The firm can increase market price and P/E by retaining more earnings**

☐ The firm can increase market price and P/E by increasing the growth rate

☐ The amount of earnings retained by the firm does not affect market price or the P/E

☐ None of the given options

Question No: 7 (Marks: 1) - Please choose one

Which of the following would tend to reduce a firm's P/E ratio?

☐ The firm significantly decreases financial leverage

☐ The firm increases return on equity for the long term

☒ **The level of inflation is expected to increase to double-digit levels**

☐ The rate of return on Treasury bills decreases

Question No: 8 (Marks: 1) - Please choose one

Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

☐ ☐ ☐ ☐ ☐ ☐ ☒ 6.0%

☐ ☐ ☐ ☐ ☐ ☐ ☐ 4.8%

☐ ☐ ☐ ☐ ☐ ☐ ☐ 7.2%

☐ ☐ ☐ ☐ ☐ ☐ ☐ 3.0%

$G \text{ (Desired Growth Rate)} = \text{return on equity} \times (1 - \text{pay out ratio})$

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Question No: 13 (Marks: 1) - Please choose one

The value of direct claim security is derived from which of the following?

- ▶ Fundamental analysis
- ▶ **Underlying real asset**
- ▶ Supply and demand of securities in the market
- ▶ All of the given options

Direct Claim Security is directly tied to the value of the underlying Real Asset

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Question No: 14 (Marks: 1) - Please choose one

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ Market value
- ▶ **Intrinsic value**
- ▶ Face value

Question No: 15 (Marks: 1) - Please choose one

How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns

- ▶ **They have the highest rates of return for a given level of risk**

Question No: 16 (Marks: 1) - Please choose one

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity
- ▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Question No: 17 (Marks: 1) - Please choose one

Which of the following is a characteristic of a coupon bond?

- ▶ **Pays interest on a regular basis (typically every six months)**
- ▶ Does not pay interest on a regular basis but pays a lump sum at maturity
- ▶ Can always be converted into a specific number of shares of common stock in the issuing company
- ▶ Always sells at par

Question No: 18 (Marks: 1) - Please choose one

_____ A
coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

- ▶ 10.65%
- ▶ **10.45%**
- ▶ 10.95%
- ▶ 10.52%

Question No: 19 (Marks: 1) - Please choose one

_____ If a
7% coupon bond is trading for Rs. 975 it has a current yield of
_____ percent.

- ▶ 7.00
- ▶ 6.53
- ▶ 8.53
- ▶ **7.18**

Question No: 20 (Marks: 1) - Please choose one

Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the _____ for the bonds is similar.

- ▶ Interest rate risk
- ▶ Market rate
- ▶ **Coupon rate**
- ▶ Inflation rate

Question No: 21 (Marks: 1) - Please choose one

When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?

▶ **Market interest rate < coupon interest rate, market value of bond is > par value**

▶ Market interest rate > coupon interest rate, market value of bond is > par value

▶ Market interest rate < coupon interest rate, market value of bond is < par value

▶ Market interest rate = coupon interest rate, market value of bond is > par value

Question No: 22 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

- ▶ Market interest rate
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ **All of the given options**

Question No: 23 (Marks: 1) - Please choose one

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

Question No: 24 (Marks: 1) - Please choose one

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

▶ **A subordinated debenture**

- ▶ A debenture
- ▶ A junk bond
- ▶ An income bond

Question No: 25 (Marks: 1) - Please choose one

_____ A 12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?

- ▶ Rs. 87
- ▶ **Rs. 90**
- ▶ Rs. 102
- ▶ Rs. 112

Question No: 26 (Marks: 1) - Please choose one

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

▶ **Indenture**

▶ Debenture

▶ Bond

▶ Bond trustee

Question No: 27 (Marks: 1) - Please choose one

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

▶ **Life span of the project**

▶ Validity of the project

▶ Cost of the capital

- ▶ Return on asset

Question No: 28 (Marks: 1) - Please choose one

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ **Modified internal rate of return**
- ▶ Net present value

Question No: 29 (Marks: 1) - Please choose one

Why net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization

► **Because it has direct link with shareholders wealth maximization**

► Because it helps in quick judgment regarding the investment in real assets

► Because we have a simple formula to calculate the cash flows

Question No: 30 (Marks: 1) - Please choose one

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- Cash flow from financing activity
- **Cash flow from operating activity**
- Cash flow from investing activity
- All of the given options

Question No: 31 (Marks: 1) - Please choose one

_____ An investment proposal should be judged in whether or not it provides:

- A return equal to the return require by the investor

- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

Question No: 32 (Marks: 1) - Please choose one

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

- ▶ Rs.253 million
- ▶ **Rs.323 million**
- ▶ Rs.380 million
- ▶ Rs.180 million

Question No: 33 (Marks: 1) - Please choose one

_____ An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

Question No: 34 (Marks: 1) - Please choose one

_____ As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

Question No: 35 (Marks: 1) - Please choose one

_____ An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ **More than**
- ▶ Equal to
- ▶ Can not be found

Question No: 36 (Marks: 1) - Please choose one

_____ What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

- ▶ Rs.1000
- ▶ Rs.702.40
- ▶ **Rs.545.45**
- ▶ Rs.13,816

Question No: 37 (Marks: 1) - Please choose one

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ A cash outflow to repurchase the firm's own common stock
- ▶ **A cash outflow to lenders as interest**
- ▶ A cash outflow to purchase bonds issued by another company

Question No: 38 (Marks: 1) - Please choose one

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Question No: 39 (Marks: 1) - Please choose one

Which of the following statements is the least likely to be correct?

- ▶ A firm that has a high degree of business risk is less likely to want to incur financial risk
- ▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**
- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Question No: 40 (Marks: 1) - Please choose one

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI

► The higher the tax rate for a firm, the lower the interest coverage ratio

Question No: 41 (Marks: 10)

You are a financial analyst for the Hittle Company. The director of capital budgeting has asked you to analyze two proposed capital investments Project X and Project Y. Each project has a cost of Rs. 10,000 and the cost of capital for both projects is 12%. The projects' expected cash flows are as follows:

Year	Expected net cash flows	
	Project X	Project Y
0	(10,000)	(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

vii. Calculate each project's payback, net present value (NPV), internal rate of return (IRR), and profitability index (PI).

- viii. Which project or projects should be accepted if they are independent?
- ix. Which project should be accepted if they are mutually exclusive?

ANSWER:

1. **Payback: PROJECT X:** Cost of project = Rs. 10,000
Payback period is the time required by the project to recover its costs.

Year 1 the project will recover Rs. 6,500

Year 2 the project will recover Rs 3000

Year 3 project will recover the remaining Rs. 500 in 1st month of 3rd yr. So payback period for Project X is 2 yrs and 1 month.

PROJECT Y: Cost of project= Rs 10,000

Year 1 project will recover Rs 3,500

Year 2 project will recover Rs 3,500

Year 3 project will recover remaining Rs 3000 in approximately 11 months of 3rd yr.

So payback period of project Y is 2 yrs and 11 months.

2. Net Present Value:

Project X: Initial investment, I_0 = Rs 10,000

Cash flow in yr 1, CF_1 = Rs 6500

Cash flow in yr 2, $CF_2 = \text{Rs } 3000$

Cash flow in yr 3, $CF_3 = \text{Rs } 3000$

Cash flow in yr 4, $CF_4 = \text{Rs } 1000$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 6500/(1.12) + 3000/(1.12)^2 + 3000/(1.12)^3 + 1000/(1.12)^4$$

$$= \text{Rs } 966$$

Project Y: Initial investment, $I_0 = \text{Rs } 10,000$

Cash flow in yr 1, $CF_1 = \text{Rs } 3500$

Cash flow in yr 2, $CF_2 = \text{Rs } 3500$

Cash flow in yr 3, $CF_3 = \text{Rs } 3500$

Cash flow in yr 4, $CF_4 = \text{Rs } 3500$

Discount rate, $i = 12\%$

No. of yrs, $n = 4$

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3 + CF_4/(1+i)^4$$

$$= -10,000 + 3500/(1.12) + 3500/(1.12)^2 + 3500/(1.12)^3 + 3500/(1.12)^4$$

$$= \text{Rs } 631$$

7. IRR: Project X: Put NPV = 0

$$NPV = -10000 + 6500/(1+i) + 3000/(1+i)^2 + 3000/(1+i)^3 + 1000/(1+i)^4$$

8. Profitability Index:

$$\text{Project X: PI} = \text{Sum}(CF_t/(1+i)^t)/I_0$$

$$= 10,966/10000 = 1.096$$

$$\text{Project Y : PI} = \text{Sum}(CF_t/(1+i)^t)/I_0$$

$$= 10631/10000 = 1.0631$$

Result: Since NPV and PI of project X are higher than that of project Y so Project X will be accepted.

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

A class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.

Liquidity Ratios

Common liquidity ratios include the current ratio, the quick ratio and the operating cash flow ratio. Different analysts consider different assets to be relevant in calculating liquidity. Some analysts will calculate only the sum of cash and equivalents divided by current liabilities because they feel that they are the most liquid assets, and would be the most likely to be used to cover short-term debts in an emergency.

A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

[Reference](#)

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1 + i/n)^n$

Its not multiple compounding otherwise use this forumal

$P \cdot (1 + i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Lon term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = \text{pmt} * ((1.05)^{-8} - 1) / .05$$

$$1000 = \text{PMT} * 6.46$$

$$\text{PMT} = 1000 / 6.46 = 154.73$$

Now from above two ann

MGT201 Solved MCQ2 from Quiz

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) Total Marks: 1

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) Total Marks: 1

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 4 of 10 (Start time: 04:07:25 PM) Total Marks: 1

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

MGT201 Solved MCQ3 from Quiz

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ {270} - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1 + i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

MGT201 Solved MCQ4 from Quiz

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicalities of earnings growth than that of the average firm

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.
Reference

Expected Portfolio Return = _____.

Select correct option:

$r_P = x_A r_A + x_B r_B$

$r_P = x_A r_A - x_B r_B$

$r_P = x_A r_A / x_B r_B$

$r_P = x_A r_A * x_B r_B$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment
Profitability index
Net present value
Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

- 0
- 0.5
- 1
- 1

For most firms, P/E ratios and risk _____.

Select correct option:

Will be directly related
Will have an inverse relationship
Will be unrelated
None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity
Debt-service burden
Adequacy capacity
Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates
CAPM stipulates
Both CAPM and APT stipulate
Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at

some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - Q_{BE})/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock
Debt
Preferred stock
None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution
Expected return
Standard deviation
Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm
The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock
The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability
Single tax filing
Difficult ownership resale
Raising capital

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25

-1.0

1.0

0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares
Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Cash budgets are prepared from past:
Select correct option:

- Balance sheets
- Income statements
- Income tax and depreciation data
- None of the given options**

The cash budget is prepared from forecasted cash collections and disbursements rather

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?
Select correct option:

- An increase
- A decrease**
- No change
- Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?
Select correct option:

- The Capital Asset Pricing Model
- M&M Proposition I
- M&M Proposition II**
- The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?

- Select correct option:
- Real assets of the business

Liquid assets of the business

Fixed assets of the business

Lon term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs

Agency costs

Transactions costs

Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt
Preferred stock
Common stock
None of the given options

According to timing difference problem a good project might suffer from ____ IRR even though its NPV is ____.

Select correct option:

Higher; lower
Lower; Lower
Lower; higher
Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$r_P = x_A r_A + x_B r_B$
 $r_P = x_A r_A - x_B r_B$
 $r_P = x_A r_A / x_B r_B$
 $r_P = x_A r_A * x_B r_B$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability
Level of fixed operating costs
Closeness to its operating break-even point
Debt-to-equity ratio

For most firms, P/E ratios and risk ____.

Select correct option:

Will be directly related
Will have an inverse relationship

Will be unrelated
None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger
Larger; Smaller
Smaller; Larger
Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B
Project B dominates project A
Neither project dominates the other in terms of risk and return
Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification
Standard deviation
Variance
Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

Fundamental analysts

Systems analysts

Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II.

A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same

I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

Commercial paper

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

- Total assets
- Fixed assets
- Current assets
- Current assets minus current liabilities**

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

- Increase
- Decrease**
- Either increase or decrease
- None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

- Comparable
- Correlated
- Highly correlated
- Negatively correlated**

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders
Shareholders
Bondholders
Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicity of earnings growth than that of the average firm

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares

The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk**
- Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the _____.

Select correct option:

- Unlevered firm
- Unlevered firm plus the value of the debt
- Unlevered firm plus the present value of the tax shield**
- Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

- Debt capacity**
- Debt-service burden
- Adequacy capacity
- Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate
Long-term bond rate
Prime rate
Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes
M&M Proposition I without taxes
M&M Proposition II without taxes
M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity
Debt-service burden
Adequacy capacity
Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index
Net present value; internal rate of return
Net present value; payback period
Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

- Equity
- Fixed assets
- Short term loan
- Long term loan**

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

,

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

- Maximizing the market value of the firm
- Maximizing the market value of the firm only if MM's Proposition I
- Minimizing the market value of the firm only if MM's Proposition I holds
- Maximizing the profits of the firm**

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

- Total assets
- Fixed assets
- Current assets
- Current assets minus current liabilities**

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure
The market value of a firm's debt is independent of its capital structure
The market value of any firm is independent of its capital structure
None of the given options

How "Shareholder wealth" is represented in a firm?
Select correct option:

The number of people employed in the firm
The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock
The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?
Select correct option:

Fundamental analysis
Underlying real asset
Supply and demand of securities in the market
All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
Select correct option:

Fall
Rise
Remain unchanged
Incomplete information

Which of the following is an example of restructuring the firm?
Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share
A new investment increases the firm's business risk
New equity is issued and the proceeds repay debt
A new Board of Directors is elected to the firm

Which of the following refers to financial risk?
Select correct option:

Risk of owning equity securities
Risk faced by equity holders when debt is used
General business risk of the firm
Possibility that interest rates will increase

Why companies invest in projects with negative NPV?
Select correct option:

Because there is hidden value in each project
Because there may be chance of rapid growth
Because they have invested a lot
All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?
Select correct option:

Interest tax shield
Depreciable basis
Financing umbrella
Current yield

An annuity due is always worth ____ a comparable annuity.
Select correct option:

Less than
More than
Equal to
Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?
Select correct option:

Financing short-term needs with short-term funds
Financing permanent inventory buildup with long-term debt
Financing seasonal needs with short-term funds
Financing some long-term needs with short-term funds

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

By borrowing more
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By selling common stock

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors
Socio political factors

Social factors

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

because its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business.

His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an

organization is know as:

- a. SWOT Analysis**

- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than

its coupon rate, the bond is selling at:

a. A premium

- b. A discount
- c. Cannot be determined without more information
- d. Face value

4. Which of the following statements *best* describe the 'Balance Sheet'?

- a. Summarizes the firm's revenues and expenses over an accounting period
- b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
- c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

- a. They measure the amount of debt the firm uses
- b. They measure how effectively a firm is managing its assets
- c. They show the relationship of a firm's cash and other current assets to its current liabilities
- d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

- a. When a project has conventional cash flows patterns
- b. When a project has a non-conventional cash flow pattern
- c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the

same period. This could have happened if:

- a. Cost of goods sold increased relative to sales.
- b. Sales increased relative to expenses.

c. The tax rate has been increased

- d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

- a. Will not experience any difficulty with its creditors.
- b. Has less liquidity than other firms in the industry.

c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

- a. Based on their estimated liquidation value
- b. Based on their relative importance to the company
- c. Based on their actual purchase price
- d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

- b. Inventory is liquidated for cash.
- c. New common stock is sold and used to retire a debt issue.
- d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

- a. Discounting
- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity

c. An annuity due

- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call
- b. Coupon payment
- c. Yield-to-maturity**
- d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

- a. Its price will rise
- b. Its price will remain unchanged
- c. Its price will fall.
- d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. **Primary money market**

- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at _____.

a. A discount

- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.
- c. Is zero if the company pays no dividends
- d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its

dividend yield is 8%. At what price is the stock selling?

a. Rs.40

b. Rs.35

c. Rs.30

d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

a. Growth stock

b. Income stock

c. Aggressive stock

d. Defensive stock

MGT201 Solved MCQ2 from Quiz

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) Total Marks: 1

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) Total Marks: 1

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 4 of 10 (Start time: 04:07:25 PM) Total Marks: 1

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

MGT201 Solved MCQ3 from Quiz

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ {270} - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 $(.042891) = \$857.82$.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1 + i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

MGT201 Solved MCQ4 from Quiz

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

<http://vustudents.ning.com>

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical growth of earnings than that of the average firm

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

[Both timing and magnitude of cash flows](#)

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

[Reference](#)

Expected Portfolio Return = _____.

Select correct option:

<http://vustudents.ning.com>

$$r_P^* = x_A r_A + x_B r_B$$

$$r_P^* = x_A r_A - x_B r_B$$

$$r_P^* = x_A r_A / x_B r_B$$

$$r_P^* = x_A r_A * x_B r_B$$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of

the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$$(Q - Q_{BE})/Q$$

$$(EBIT) / (EBIT - FC)$$

$$[Q(P-V) + FC] / [Q(P-V)]$$

$$Q(P-V) / [Q(P-V) - FC]$$

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

- Real risk-free rate
- Risk premium for stocks
- Return on assets**
- Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

- Real assets of the business
- Liquid assets of the business**

Fixed assets of the business
Lon term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation
Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

- Common stock
- Debt**
- Preferred stock
- None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

- Probability distribution
- Expected return
- Standard deviation**
- Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

- The number of people employed in the firm
- The book value of the firm's assets less the book value of its liabilities
- The market price per share of the firm's common stock**
- The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25

-1.0

1.0

0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

When a bond will sell at a discount?
Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot
All of the given options

Cash budgets are prepared from past:
Select correct option:

Balance sheets
Income statements
Income tax and depreciation data
None of the given options

The cash budget is prepared from forecasted cash collections and disbursements rather

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?
Select correct option:

An increase
A decrease
No change
Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?
Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

<http://www.financescholar.com/modigliani-miller-propositions.html>

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs

Agency costs

Transactions costs

Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is ____.

Select correct option:

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$r_P = x_A r_A + x_B r_B$

$r_P = x_A r_A - x_B r_B$

$r_P = x_A r_A / x_B r_B$

$r_P = x_A r_A * x_B r_B$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return

Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance
Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet
The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

Fundamental analysts

Systems analysts

Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same

I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

Commercial paper

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

Increase

Decrease

Either increase or decrease

None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated
Negatively correlated

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicalities of earnings growth than that of the average firm

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will

sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares

The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes

M&M Proposition II without taxes

M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option: <http://vustudents.ning.com>

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

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Current assets

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Rise

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More than

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Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

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By shifting long-term to short-term debt

By selling common stock

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

becuase its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

<http://vustudents.ning.com>

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business.

His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is known as:

- a. **SWOT Analysis**
- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:

- a. **A premium**
- b. A discount
- c. Cannot be determined without more information
- d. Face value

4. Which of the following statements best describe the 'Balance Sheet'?

- a. Summarizes the firm's revenues and expenses over an accounting period
- b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
- c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

- a. They measure the amount of debt the firm uses

- b. They measure how effectively a firm is managing its assets
- c. They show the relationship of a firm's cash and other current assets to its current liabilities
- d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

- a. When a project has conventional cash flows patterns
- b. When a project has a non-conventional cash flow pattern
- c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the

same period. This could have happened if:

- a. Cost of goods sold increased relative to sales.
- b. Sales increased relative to expenses.

c. The tax rate has been increased

- d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

- a. Will not experience any difficulty with its creditors.
- b. Has less liquidity than other firms in the industry.
- c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

- a. Based on their estimated liquidation value
- b. Based on their relative importance to the company
- c. Based on their actual purchase price
- d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

- b. Inventory is liquidated for cash.
- c. New common stock is sold and used to retire a debt issue.
- d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

- a. Discounting
- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity
- c. An annuity due**
- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call
- b. Coupon payment
- c. Yield-to-maturity**
- d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

- a. Its price will rise
- b. Its price will remain unchanged
- c. Its price will fall.
- d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. Primary money market**
- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at _____.

- a. A discount**
- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.
- d. All interest payments in one lump sum at maturity.**

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.
- c. Is zero if the company pays no dividends

d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its

dividend yield is 8%. At what price is the stock selling?

a. Rs.40

b. Rs.35

c. Rs.30

d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

a. Growth stock

b. Income stock

c. Aggressive stock

d. Defensive stock

MGT201 Financial Management

When the intrinsic value of an asset is less than its _____, the asset is perceived as “undervalued”.

► Book Value

► **Market Value**

► Liquidation Value

► None of the given options

If the intrinsic value of an asset is less than its market value, the asset among investors is perceived as “undervalued”.

When current liabilities rise faster than current assets, the current ratio will _____.

- ▶ **Fall**
- ▶ Rise
- ▶ Remain same
- ▶ None of the given options

Yield to Maturity (YTM) of a bond = Interest yield + _____

- ▶ Annual coupon interest
- ▶ Market price
- ▶ **Capital gain**
- ▶ None of the given options

_____ are also known as Hybrid equity.

- ▶ Common shares
- ▶ **Preferred shares**
- ▶ Bonds
- ▶ All of the given options

_____ is a measure of risk.

- ▶ **Standard Deviation**

- ▶ Mean
- ▶ Mode
- ▶ None of the given options

Risk is measured in terms of the standard deviation or variance.

An annuity whose payments are made at the end of each period is called _____.

▶ **Ordinary Annuity**

- ▶ Annuity Due
- ▶ Perpetuity
- ▶ None of the given options

An ordinary annuity, also known as deferred annuity, consists of a series of equal payments at the end of each period.

The present value of Rs. 5,000 received at the end of 5 years, discounted at 10 percent, is closest to_____.

- ▶ **Rs.3,105**
- ▶ Rs.823
- ▶ Rs.620

► Rs.3,40

$$PV = FV / (1 + I)^n$$

$$= 5000 / (1 + 10/100)^5$$

$$= 3104.606615$$

You are considering buying common stock in Grow On, Inc. The firm yesterday paid a dividend of Rs. 7.80. You have projected that dividends will grow at a rate of 9.0% per year indefinitely. If you want an annual return of 24.0%, what is the most you should pay for the stock now?

► Rs.52.00

► **Rs.56.68**

► Rs.32.50

► Rs.35.43

$$PV = P_0^* = \text{DIV}_1 / (r_{CE} - g)$$

$$= 7.80(1 + .09) / (.24 - .09) = 56.68$$

The current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity
Annual interest divided by the par value
The internal rate of return

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?
Select correct option:

Default risk premium

Sovereign Risk Premium
Market risk premium
Maturity risk premium

The default premium is paid by companies with lower grade bonds or by individuals with poor credit. As an illustration, companies with poor financials will tend to compensate investors for the additional risk by issuing bonds with high yields. Individuals with poor credit must pay higher interest rates in order to borrow money from the bank.

As interest rates go up, the present value of a stream of fixed cash flows ____.
Select correct option:

Goes down

Goes up
Stays the same
Can not be found from the given information

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to

which of the following?
Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE = \text{_____}$.
Select correct option:

Net profit margin × Total asset turnover × Equity multiplier

Total asset turnover × Gross profit margin × Debt ratio

Total asset turnover × Net profit margin

Total asset turnover × Gross profit margin × Equity multiplier

Which of the following is NOT true regarding an ordinary annuity?
Select correct option:

It is a series of equal cash flows

Cash flows occur for a specific time period

Payments are made at the start of each period

It is also known as deferred annuity

An ordinary annuity, also known as deferred annuity, consists of a series of equal payments at the end of each period.

Which of the following is the main objective of 'Financial Accounting'?

Select correct option:

Profit maximization

Maximization of shareholders wealth

To collect accurate, systematic, and timely financial data

All of the given options

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Which of the following is type a Temporary Account?

Select correct option:

Asset

Liability

Reserves

Revenue

Temporary Account does not appear on the balance sheet; also called Nominal Account. Revenue and expense accounts, along with income distribution accounts (such as dividend) are temporary accounts.

In which of the following approach you need to bring all the projects to the same length in time? Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

What is the long-run objective of financial management?
Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost

Sunk cost

Floatation cost

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____.

Select correct option:

Both bonds will increase in value, but bond A will increase more than bond B

Both bonds will increase in value, but bond B will increase more than bond A

Both bonds will decrease in value, but bond A will decrease more than bond B

Both bonds will decrease in value, but bond B will decrease more than bond A

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Which of the following is the percentage of interest charged at each compounding time?

Select correct option:

Nominal interest Rate

Effective interest Rate

Annual percentage rate

Periodic interest rate

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money

It neglects cash flows after the payback period

It does not use interest rate while making calculations
It is a tricky and complicated method

What is yield to maturity on a bond?
Select correct option:

Below the coupon rate when the bond sells at a discount, and
equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are
reinvested at the coupon rate

Which of the following would generally have unlimited liability?
Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Financial Management

What is the present value of Rs.1,000 to be paid at the end of 5 years if the correct risk adjusted interest rate is 8%?

Select correct option:

Rs.714

Rs.1,462

Rs.322.69

Rs.401.98

Given no change in required returns, the price of a stock whose dividend is constant will_____.

Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:

Select correct option:

Balance Sheet

Income Statement

Cash budget

Statement of Retained Earnings

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of a bond is directly derived from which of the following?
Select correct option:

- Cash flows
- Coupon receipts
- Par recovery at maturity
- All of the given options**

What should be the focal point of financial management in a firm?
Select correct option:

- The number and types of products or services provided by the firm
- The minimization of the amount of taxes paid by the firm
- The creation of value for shareholders**
- The dollars profits earned by the firm

What is difference between shares and bonds?
Select correct option:

- Bonds are representing ownership whereas shares are not
- Shares are representing ownership whereas bonds are not**
- Shares and bonds both represent equity
- Shares and bond both represent liabilities

Which of the following is NOT true regarding an annuity due?
Select correct option:

It is a series of equal cash flows

It is also known as deferred annuity

Cash flows occur for a specific time period

Payments are made at the start of each period

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is the general assumption of Percent of Sales Forecasting?

Select correct option:

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

Current Assets usually grow in proportion to Liabilities

Current Assets usually grow in proportion to Sales

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

Select correct option:

Operational; financial management

Financial management; accounting
Accounting; financial management
Financial management; operations

Which of the following is FALSE about Perpetuity?
Select correct option:

It is a series of cash flows
Cash flows occur for a specific time period
Its cash flows are identical
None of the given options

Perpetuity:

"It is defined as an annuity with an infinite life making continual payments."

The value of the bond is NOT directly tied to the value of which of the following assets?
Select correct option:

Real assets of the business
Liquid assets of the business
Fixed assets of the business
Long term assets of the business

Nominal Interest Rate is also known as:
Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Which of the following refers to time value of money concept?
Select correct option:

A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?
Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

What are the Indirect securities?
Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that indirectly generate returns for its investors

All of the given options

Indirect Securities: Indirect securities include derivatives, Futures and Options. The securities do not generate any cash flow; however, its value depends on the value of the underlying asset.

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

How can a company improve (lower) its debt-to-total asset ratio?

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Which of the following are known as Discretionary Financing?

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

Par value

Market value

Intrinsic value

Face value

According to timing difference problem a good project might

suffer from ____ IRR even though its NPV is ____.

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

Accounts that are found on Balance Sheet

All of the given options

Which group of ratios shows the extent to which the firm is financed with debt? Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is NOT the type of Hybrid organizations. Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

When bonds are issued, under which of the following category the value of the bond appears. Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____. Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following refers to bringing the future cash flow to the present time? Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account: Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Effective interest rate is different from nominal rate of interest because. Select correct option:

Nominal interest rate ignores compounding

Nominal interest rate includes frequency of compounding

Periodic interest rate ignores the effect of inflation

All of the given options

What are the Indirect securities? Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that indirectly generate returns for its investors

All of the given options

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations? Select correct option:

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods)(1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Given no change in required returns, the price of a stock whose dividend is constant will_____Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following. Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

When a bond will sell at a discount. Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows. Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting. Select correct option:

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs

Estimate the retained earnings

Percentage of sales:

Step 1: Estimate year-by-year Sales Revenue and Expenses

Step 2: Estimate Levels of Investment Needs (in Assets) required meeting estimated sales (using

Financial Ratios). That how the Assets of the company changes with the change in

Step 3: Estimate the Financing Needs (Liabilities)

Which of the following is NOT true regarding an annuity due?
Select correct option:

It is a series of equal cash flows

It is also known as deferred annuity

Cash flows occur for a specific time period

Payments are made at the start of each period

When coupon bonds are issued, they are typically sold at which of the following value?

Select correct option:

Above par value

Below par

At or near par value

At a value unrelated to par

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Which of the following is not the present value of the bond?

Intrinsic value

Market price

Fair price

Theoretical price

Which is the present value of Rs.1,000 to be paid at the end of 5 years if the correct risk adjusted interest rate is 8%?

Rs.714

Rs.1,462

Rs.322.69

Rs.401.98

$$PV=1000*(1.08)^5$$

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?
Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which of the following is a major disadvantage of the corporate form of organization?
Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Which of the following is the risk of investing funds in another country?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Sunk costs need to be excluded while calculating the incremental cash flows.

Which of the following affects price of the bond?
Select correct option:

Market interest rate
Required rate of return
Interest rate risk

All of the given options

Which of the following is/are the characteristic(s) of Perpetuity?
Select correct option:

It is an annuity
It has no definite end
It is a constant stream of identical cash flows

All of the given options

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?
Select correct option:

Rs.52,000
Rs.93,219
Rs.99,061

Rs.915,240

$$FV = PV \times e^{ixn}$$

$$=20000 \times (2.718)^{1.6}$$

Which of the following is a limitation of a Corporation?

Select correct option:

Easy to set up

Double-taxation

Inexpensive to maintain

Unlimited liability

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Which of the following is NOT true regarding an ordinary annuity?

Select correct option:

It is a series of equal cash flows

Cash flows occur for a specific time period

Payments are made at the start of each period

It is also known as deferred annuity

An ordinary annuity, also known as deferred annuity, consists of a series of equal payments at the end of each period.

The return in excess to risk free rate that investors require for bearing the market risk is known as:

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Study the time line and accompanying 5-period cash-flow pattern below.

0	1	2	3	4	5	6	Time line		-----		-----		-----		-----		-----		---
-----		Rs.10	Rs.10	Rs.10	Rs.10	Rs.10	Cash flows				A	B	The present						

value of the 5-period annuity shown above as of Point A is the present value of a 5-period _____ , whereas the future value of the same annuity as of Point B is the future value of a 5-period _____ .

Select correct option:

Ordinary annuity; ordinary annuity

Ordinary annuity; annuity due

Annuity due; annuity due

Annuity due; ordinary annuity

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Why we need Capital rationing?

Select correct option:

Because, there are not enough positive NPV projects

Because, companies do not always have access to all of the funds they could make use of

Because, managers find it difficult to decide how to fund projects

Because, banks require very high returns on projects

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium
Sovereign Risk Premium
Market risk premium

Maturity risk premium

Which of the following equation is NOT correct?
Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Operating Revenue – Other Expenses + Other Revenue = EBIT

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?
Select correct option:

Discount rate
Profitability index
Internal rate of return

Multiple Internal rate of return

When a bond will sell at a discount?
Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Which of the following is type a Temporary Account?

Select correct option:

Asset

Liability

Reserves

Revenue

What are the Direct claim securities?

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

[Hand outs, page 121](#)

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Select correct option:

Sunk cost

Opportunity cost

Externalities

Contingencies

[Externalities in financial terms may be defined as incidental cash flows that arise because of the effect of new project on the existing or running business.](#)

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or

outflows?

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

As interest rates go up, the present value of a stream of fixed cash flows ____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Spontaneous Financing is Trade credit, and other payables and accruals, that arise spontaneously in the firm's day-to-day operations.

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

What are the Indirect securities?

Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that indirectly generate returns for its investors

All of the given options

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm

College Credit, a credit union

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money

It neglects cash flows after the payback period

It does not use interest rate while making calculations

It is a tricky and complicated method

Which if the following is (are) true?

I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

What is the present value of Rs.8,000 to be paid at the end of three years if interest rate is 11%?

Select correct option:

Rs. 5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively? Select correct option:

Operational; financial management

Financial management; accounting

Accounting; financial management

Financial management; operations

Nominal Interest Rate is also known as:
Select correct option:

- Effective interest Rate
- Annual percentage rate
- Periodic interest rate**
- Required interest rate

The nominal interest rate is the periodic interest rate times the number of periods per year.

An annuity due is always worth ____ a comparable annuity.

Less than

More than

Equal to

Can not be found from the given information

Which of the following refers to bringing the future cash flow to the present time?

Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

Which of the following is NOT true regarding the capital market?
Select correct option:

Where long-term funds can be raised

Money is invested for periods longer than a year

Where TFCs and NIT are exchanged and traded

Where overnight lending & borrowing takes place

What is difference between shares and bonds?
Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

Which of the following would NOT improve the current ratio?
Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

Handouts Lecture 11

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market

Real asset market

Handouts Lecture 08

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?

Select correct option:

3.33%

30%

31%

70%

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Indenture

Debenture

Bond

Bond trustee

MIRR (discount rate) equates which of the following?

Select correct option:

Future value of cash inflows to the present value of cash outflows

Future value of cash flows to the present value of cash flows

Future value of all cash flows to zero

Present value of all cash flows to zero

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

An investment proposal should be judged in whether or not it provides:

Select correct option:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?
Select correct option:

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods)(1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ {270} - 1 \} = .042891$ or 4.2891%. Thus, \$20,000
(.042891) =\$857.82.

Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?

Involvement of interest rate while making calculations

Do not account for time value of money

Tricky and complicated methods

All of the given options

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

A class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.

Liquidity Ratios

Common liquidity ratios include the current ratio, the quick ratio and the operating cash flow ratio. Different analysts consider different assets to be relevant in calculating liquidity. Some analysts will calculate only the sum of cash and equivalents divided by current liabilities because they feel that they are the most liquid assets, and would be the most likely to be used to cover short-term debts in an emergency.

A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Reference

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

$FV = PV \times e$

$i \times n$

$FV = 20,000 \times 2.718^{(.08 \times 20)}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Lon term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

MGT201 Five Online Quizzes (Almost 70 Mcqs) 2010**Covering lecture No 1-18****Solved by dua ,virtual ,saad ,famous,gorgeous,sahar****Answers are not 100% sure**

Question # 1 of 15 (Start time: 09:14:05 PM) Total Marks: 1

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value (Correct)

Historic cost

Question # 2 of 15 (Start time: 09:14:35 PM) Total Marks: 1

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium (Correct)

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 3 of 15 (Start time: 09:15:38 PM) Total Marks: 1

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value (Correct)

Par value

Historic cost

Question # 4 of 15 (Start time: 09:17:00 PM) Total Marks: 1

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not (Correct)

Shares and bonds both represent equity

Shares and bond both represent liabilities

mc090401219: Question # 5 of 15 (Start time: 09:18:04 PM) Total Marks: 1

Effective interest rate is different from nominal rate of interest because:

Select correct option:

Nominal interest rate ignores compounding

Nominal interest rate includes frequency of compounding (Correct)

Periodic interest rate ignores the effect of inflation

All of the given options

Question # 6 of 15 (Start time: 09:18:48 PM) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market (Correct)

Money market

Real asset market

Question # 7 of 15 (Start time: 09:20:10 PM) Total Marks: 1

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period (Correct)

Internal rate of return

Net present value

Profitability index

Question # 8 of 15 (Start time: 09:21:01 PM) Total Marks: 1

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money (Correct)

It neglects cash flows after the payback period

It does not use interest rate while making calculations

It is a tricky and complicated method

Question # 9 of 15 (Start time: 09:22:03 PM) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

Cash flow diagram (Correct)

Cash budget

Cash flow statement

None of the given options

Question # 10 of 15 (Start time: 09:22:45 PM) Total Marks: 1

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

Accounts that are found on Balance Sheet

All of the given options

Question # 11 of 15 (Start time: 09:24:06 PM) Total Marks: 1

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing (Correct)

Financing, operating and investing

Financing, investing, and operating

Question # 12 of 15 (Start time: 09:25:15 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost (Correct)

Opportunity cost

Non-cash item

Question # 13 of 15 (Start time: 09:26:33 PM) Total Marks: 1

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period (Correct)

Internal rate of return

Net present value

Profitability index

Question # 14 of 15 (Start time: 09:27:40 PM) Total Marks: 1

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts (Correct)

Par recovery at maturity

All of the given options

Question # 14 of 15 (Start time: 09:27:40 PM) Total Marks: 1

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts (Correct)

Par recovery at maturity

All of the given options

Question # 1 of 15 (Start time: 09:32:06 PM) Total Marks: 1

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period (Correct)

Internal rate of return

Net present value

Profitability index

Question # 2 of 15 (Start time: 09:33:11 PM) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

Microsoft Corporation, a software firm (Correct)

College Credit, a credit union

Question # 3 of 15 (Start time: 09:33:49 PM) Total Marks: 1

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity (Correct)

Question # 4 of 15 (Start time: 09:34:34 PM) Total Marks: 1

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan (Correct)

Question # 5 of 15 (Start time: 09:35:06 PM) Total Marks: 1

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

It does not account for time value of money

It neglects cash flows after the payback period

It does not use interest rate while making calculations

It is a tricky and complicated method (Correct)

Question # 6 of 15 (Start time: 09:35:46 PM) Total Marks: 1

An investment proposal should be judged in whether or not it provides:

Select correct option:

A return equal to the return require by the investor

A return more than required by investor (Correct)

A return less than required by investor

A return equal to or more than required by investor

Question # 7 of 15 (Start time: 09:36:51 PM) Total Marks: 1

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends (Correct)

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Question # 8 of 15 (Start time: 09:37:49 PM) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares (Correct)

Preferred shares

Question # 9 of 15 (Start time: 09:38:55 PM) Total Marks: 1

Which of the following is/are the component(s) of working capital management?

Select correct option:

Current assets (Correct)

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Question # 10 of 15 (Start time: 09:40:18 PM) Total Marks: 1

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm
(Correct)

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 11 of 15 (Start time: 09:41:43 PM) Total Marks: 1

What should be the focal point of financial management in a firm?

Select correct option:

The number and types of products or services provided by the firm

The minimization of the amount of taxes paid by the firm

The creation of value for shareholders

The dollars profits earned by the firm(Correct)

Question # 12 of 15 (Start time: 09:42:43 PM) Total Marks: 1

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219 (Correct)

Rs.99,061

Rs.915,240

Question # 13 of 15 (Start time: 09:43:14 PM) Total Marks: 1

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee (Correct)

Question # 14 of 15 (Start time: 09:44:04 PM) Total Marks: 1

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical (Correct)

None of the given options

Question # 15 of 15 (Start time: 09:45:14 PM) Total Marks: 1

Which of the following refers to bringing the future cash flow to the present time?

Select correct option:

Net present value

Discounting (Correct)

Opportunity cost

Internal rate of return

Question # 1 of 15 (Start time: 09:49:12 PM) Total Marks: 1

Given no change in required returns, the price of a stock whose dividend is constant will_____.

Select correct option:

Decrease over time at a rate of $r\%$

Remain unchanged (Correct)

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Question # 2 of 15 (Start time: 09:50:02 PM) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market (Correct)

Money market

Real asset market

Virtual: 2

zahid.famous: 2

saadkhan545: Question # 3 of 15 (Start time: 09:50:40 PM) Total Marks: 1

Which of the following is the Double Entry Principle?

Select correct option:

Assets + Liabilities = Shareholders' Equity

Assets = Liabilities + Shareholders' Equity

Liabilities = Assets + Shareholders' Equity (Correct)

None of the given options

Question # 4 of 15 (Start time: 09:51:21 PM) Total Marks: 1

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT (Correct)

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Question # 5 of 15 (Start time: 09:52:38 PM) Total Marks: 1

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219 (Correct)

Rs.99,061

Rs.915,240

5:53 PM

Question # 6 of 15 (Start time: 09:54:01 PM) Total Marks: 1

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward (Correct)

First upward and then downward

None of the given options

Question # 7 of 15 (Start time: 09:55:36 PM) Total Marks: 1

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

Select correct option:

Par value

Market value (Correct)

Intrinsic value

Face value

Question # 8 of 15 (Start time: 09:57:06 PM) Total Marks: 1

Which of the following refers to time value of money concept?

Select correct option:

A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow (Correct)

A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow

A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow

All of the given options

Question # 9 of 15 (Start time: 09:57:59 PM) Total Marks: 1

Which of the following is NOT true regarding an ordinary annuity?

Select correct option:

It is a series of equal cash flows

Cash flows occur for a specific time period (Correct)

Payments are made at the start of each period

It is also known as deferred annuity

Question # 10 of 15 (Start time: 09:58:47 PM) Total Marks: 1

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

Financial accounting

Financial management (Correct)

Financial engineering

Financial budgeting

5:59 PM

Question # 11 of 15 (Start time: 09:59:08 PM) Total Marks: 1

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical (Correct)

None of the given options

Question # 12 of 15 (Start time: 10:00:31 PM) Total Marks: 1

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Select correct option:

Sunk cost

Opportunity cost

Externalities (Correct)

Contingencies

Question # 13 of 15 (Start time: 10:01:09 PM) Total Marks: 1

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

Rs.105,000

Rs.1,500,000

Rs.3975,000

Rs. 350,000

saadkhan545: Question # 14 of 15 (Start time: 10:02:19 PM) Total Marks: 1

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities (Correct)

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

Question # 15 of 15 (Start time: 10:03:16 PM) Total Marks: 1

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than (Correct)

Equal to

Can not be found from the given information

Question # 1 of 15 (Start time: 10:22:47 PM) Total Marks: 1

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing (Correct)

Financing, operating and investing

Financing, investing, and operating

Question # 2 of 15 (Start time: 10:23:52 PM) Total Marks: 1

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity (Correct)

Question # 3 of 15 (Start time: 10:24:25 PM) Total Marks: 1

If Net Present Value technique is used, what is the minimum acceptance criterion for a project?

Select correct option:

NPV<0

NPV=0

NPV>0

NPV<=0 (Correct)

Question # 4 of 15 (Start time: 10:25:44 PM) Total Marks: 1

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets (Correct)

Investment in current assets

Investment in short-term liabilities

Question # 5 of 15 (Start time: 10:26:13 PM) Total Marks: 1

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical (Correct)

None of the given options

Question # 1 of 15 (Start time: 10:37:35 PM) Total Marks: 1

What are the three classes of factors that influence perception?

Select correct option:

Factors in the setting, factors in the environment and factors in the motives

Factors in the perceiver, factors in the target and factors in the situation

Factors in the character, factors in knowledge and factors in experience

Factors in the personality, factors in the character and factors in the values

Question # 6 of 15 (Start time: 10:39:02 PM) Total Marks: 1

Characteristics such as age, gender and marital status are known as

Select correct option:

Psychographic characteristics

Biographical characteristics

Geographical characteristics

Behavioral characteristics

Question # 2 of 15 (Start time: 10:39:05 PM) Total Marks: 1

What is the term used for a general impression about an individual based on a single characteristic such as intelligence, sociability, or appearance?

Select correct option:

The contrast effect

Personal bias

The halo effect (Correct)

Projection

Question # 3 of 15 (Start time: 10:40:25 PM) Total Marks: 1

Ability to understand what is read or heard and the relationship of words to each other is called _____

Select correct option:

Verbal comprehension (Correct)

Non verbal comprehension

Perceptual speed

Memory

Question # 8 of 15 (Start time: 10:40:50 PM) Total Marks: 1

Which of the following is true of people with a Type A personality?

Select correct option:

They are generally content with their place in the world

They generally feel little need to discuss their achievements

They are easy going and relaxed that's why take no tension of work

They have an intense desire to achieve and are extremely competitive (Correct)

Question # 4 of 15 (Start time: 10:41:19 PM) Total Marks: 1

A person or group with a direct interest, involvement, or investment in organization is called _____.

Select correct option:

Shareholder (Correct)

Stakeholder

Stockholder

Patron

Question # 5 of 15 (Start time: 10:42:18 PM) Total Marks: 1

If a person responds the same way over time, attribution theory states that the behavior shows:

Select correct option:

Distinctiveness

Consensus

Consistency (Correct)

Continuity

Question # 6 of 15 (Start time: 10:43:45 PM) Total Marks: 1

_____ focuses on the study of people in relation to their social environment.

Select correct option:

Psychology

Sociology (Correct)

Corporate strategy

Political science

Question # 7 of 15 (Start time: 10:45:13 PM) Total Marks: 1

Which of the following term is used to describe broad range of feelings that people experience?

Select correct option:

Mood (Correct)

Affect

Emotion

Emotional Intelligence

Question # 8 of 15 (Start time: 10:46:41 PM) Total Marks: 1

Hanif is dissatisfied with his job but believes that his supervisor is a good man who will do the right thing. Hanif has decided that if he just waits, conditions will improve. Henry's approach to this problem is termed as:

Select correct option:

Exit

Voice

Loyalty

Neglect (Correct)

Question # 9 of 15 (Start time: 10:48:11 PM) Total Marks: 1

Job satisfaction is best described as _____.

Select correct option:

A result

A value

An attitude (Correct)

A discipline

Question # 10 of 15 (Start time: 10:49:37 PM) Total Marks: 1

Which of the following theory is proposed by Clayton Alderfer?

Select correct option:

Theory X and Theory Y

Hierarchy of Needs

ERG Theory (Correct)

Theory Z

Question # 11 of 15 (Start time: 10:50:24 PM) Total Marks: 1

Robert Katz identified three essential skills that managers need to have in order to reach their goals. What are these skills?

Select correct option:

Technical, decisional and interpersonal (Correct)

Technical, human, and conceptual

Interpersonal, informational and decisional

Conceptual, communication and networking

Question # 12 of 15 (Start time: 10:51:47 PM) Total Marks: 1

One of the shortcuts used to judge others involves evaluating a person based on how he/she compares to other individuals on the same characteristic. What is this shortcut called?

Select correct option:

Selective perception

The contrast effect

The halo effect (Correct)

Stereotyping

Question # 13 of 15 (Start time: 10:52:24 PM) Total Marks: 1

Which of the following factors make it imperative that organizations be fast and flexible?

Select correct option:

Temporariness

Corporate excess

Advances in corporate strategy

Globalization

Question # 14 of 15 (Start time: 10:53:58 PM) Total Marks: 1

When Job satisfaction is increased, absenteeism tends to:

Select correct option:

Increase

Decrease

Have no effect

None of the above

Question # 15 of 15 (Start time: 10:54:48 PM) Total Marks: 1

Difficulty in expressing emotions by an individual and understanding other's emotions is termed as:

Select correct option:

Anemia

Thalassemia

Alexithymia

Myopia

--

Question # 1 of 15 (Start time: 10:58:08 PM) Total Marks: 1

What is the present value of Rs.8,000 to be paid at the end of three years if interest rate is 11%?

Select correct option:

Rs.6,015

Rs.4,872

Rs.6,725

Rs.1,842

6:59 PM

Question # 3 of 15 (Start time: 11:00:17 PM) Total Marks: 1

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR (Correct)

PV

NPV

Question # 5 of 15 (Start time: 11:02:10 PM) Total Marks: 1

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share (Correct)

Market value per share

None of the above

Question # 7 of 15 (Start time: 11:03:42 PM) Total Marks: 1

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Question # 7 of 15 (Start time: 11:03:42 PM) Total Marks: 1

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Question # 8 of 15 (Start time: 11:04:28 PM) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

<http://vustudents.ning.com>

Cash flow diagram

Cash budget

Cash flow statement

None of the given options (Correct)

Question # 9 of 15 (Start time: 11:05:08 PM) Total Marks: 1

Which of the following is/are the characteristic(s) of Perpetuity?

Select correct option:

It is an annuity

It has no definite end (Correct)

It is a constant stream of identical cash flows

All of the given options

Question # 10 of 15 (Start time: 11:06:02 PM) Total Marks: 1

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options (Correct)

Question # 11 of 15 (Start time: 11:06:58 PM) Total Marks: 1

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index (Correct)

Net present value

Pay back period

mehak: Question # 12 of 15 (Start time: 11:08:07 PM) Total Marks: 1

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium

Sovereign Risk Premium (Correct)

Market risk premium

Maturity risk premium

Question # 13 of 15 (Start time: 11:08:46 PM) Total Marks: 1

What is the present value of Rs.1,000 to be paid at the end of 5 years if the correct risk adjusted interest rate is 8%?

Select correct option:

Rs.714

Rs.1,462

Rs.322.69

Rs.401.98

Question # 14 of 15 (Start time: 11:10:09 PM) Total Marks: 1

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets (Correct)

Fixed assets

Long-term liabilities

Question # 15 of 15 (Start time: 11:11:06 PM) Total Marks: 1

Effective interest rate is different from nominal rate of interest because:

Select correct option:

Nominal interest rate ignores compounding

Nominal interest rate includes frequency of compounding (Correct)

Periodic interest rate ignores the effect of inflation

All of the given option