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MIDTERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 6)

Ref No: 1426449

Time: 60 min

Marks: 44

Student Info	
StudentID:	**MC090407849**
Center:	**OPKST**
ExamDate:	**5/29/2010 12:00:00 AM**

For Teacher's Use Only									
Q No.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Total**
Marks									
Q No.	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	

Marks									
Q No.	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	
Marks									
Q No.	**25**	**26**	**27**	**28**	**29**	**30**	**31**	**32**	
Marks									

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 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: 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 × (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 <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

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.

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 ks = 10.5%, and the expected constant growth rate is g = 6.4%. What is the stock's current price?

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?