



MGT201- Financial Management

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14 Final Term Solved Papers

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**FINALTERM EXAMINATION
Spring 2010
MGT201- Financial Management**

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

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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

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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

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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

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 in 3

year statistic book

rd

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

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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

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

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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

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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: 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

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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% =126, 000

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

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coefficient

for stock B is:

$$(r_M^* - r_{RF}) / (r_B^* - r_{RF})$$

$$(r_B^* - r_{RF}) / (r_M^* - r_{RF})$$

$$(r_B^* - r_{RF}) / r_{RF}$$

$$(r_B^* - r_{RF}) / r_M^*$$

$$\text{Slope} = \text{Beta} = Y / X = \% r_A^* / \% r_M^*$$

=

A

=

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

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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

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

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

REF

: 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.

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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 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

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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

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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 page146

Concave

Time to time fluctuation

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.

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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:JRlcbO4yXQJ:>

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[t=](http://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)

[clnk&gl=pk](http://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?

$NI = (EBIT - xD rD) (1 - T_c)$

$NI = (EAT - xD rD) (1 - T_c)$

$NI = (EBIT + xD rD) (1 - T_c)$

$NI = (EBIT - xD rD) / (1 - T_c)$

Ref: $E = \text{Net Income (NI)} / \text{Cost of Equity for levered firm } (r_E, L)$

that $NI = EBIT - \text{Interest} - \text{Tax} = EBT - \text{Tax}$

$NI = (EBIT - xD rD) (1 - T_c)$

Question No: 51 (Marks: 1) - Please choose one

Which of the following refers to a unique type of Japanese corporate

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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

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?

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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

FINAL TERM EXAMINATION MGT201

Financial Management

Question No: 1 (Marks: 1) - Please choose one

The DuPont Approach breaks down the earning power on shareholders' book value

(ROE) as follows: $ROE = \underline{\hspace{2cm}}$.

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

$ROE = (\text{Profit margin}) \times (\text{Asset turnover}) \times (\text{Equity multiplier}) = (\text{Net profit/Sales}) \times (\text{Sales/Assets}) \times (\text{Assets/Equity})$

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

REF:

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 $\underline{\hspace{2cm}}$.

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Present value
Simple interest
Future value

Compound interest

REF:

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

REF:

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

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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

REF:

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 mis-management 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

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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.

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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

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lies below
the SML?

No return

Lower return

Average return

Excessive return

REF:

An y 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

Mar ket 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

REF:

Arbitrage is exploiting security mispricings by the simultaneous purchase and
sale

to gain economic profits without taking an y risk. A capital market in
equilibrium rules

out arbitrage opportunities..

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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

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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.

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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

REF :

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

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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

$FV = PV \times (1 + i)^n$

REF:

$PV = FV / (1 + i)^n$

$= 1000 / (1 + 0.08)^5$

$= 680.27$

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

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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

Ref: Vuz Mcq's Bank

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

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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= interest yield +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:

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<http://www.google.com.pk/url?sa=t&source=web&ct=res&cd=2&ved=0CAoQFjAB&u>

rl=http%3A%2F%2Fwww.cob.sfasu.edu%2Fkjones%2FF333%2FLecture%2520Not
es%2FBasics%2520of%2520Capital%2520Budgeting.ppt&rct=j&q=%22IRR%
3CWA
CC%22&ei=UxSIS4qZMc_l8Qbg6vWXdW&usg=AFQjCNFrI6KU6H1PTjdaZB
cuozpr
oDKnPw

Question No: 38 (Marks: 1) - Please choose one

Which of the following statement depicts the disadvantage of issuing debt?

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

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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

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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

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

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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

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- 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?

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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

Ref

: $F = S (\text{Rs. /AUD\$}) (1 + i \text{ Rs.}) / (1 + i \text{ AUD\$})$

$= 76(1+0.1) / (1+0.06)$

$= 78.87$

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

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

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same

value of 124Rs.

$$= F = S (\text{Rs.}) (1 + i \text{ Rs.}) / (1 + i \text{ euro})$$

$$= (124) (1 + 0.1) / (1 + 0.06) = 128.6792$$

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

FINALTERM EXAMINATION MGT201- 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:

$$PV = PMT / i$$

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= 1000/.08

= 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

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

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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

e

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

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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%

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

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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

REF:

The formula for the beta can be written as:

Beta = Covariance (stock versus market returns) / 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

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stock

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

It is offering rate of return equal to the efficient stock

REF:

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

REF :

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

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$$[E(r_p) - r_f] / \beta_p = [E(r_Q) - r_f] / \beta_Q.$$

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

REF:

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

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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).

Sales = 400,000 * 25 = 10M

VC = 400,000 * 5 = 2M

The DOL is $(S - VC)/(S - VC - FC) = (10M - 2M)/(10M - 2M - 1M) = 1.14$

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%

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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

32.

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%

In absence of Tax Rate Values are as follow

$D = 5M$

$E = 200,000 * 60 = 12 M$

$D + E = 5 + 12 = 17M$

$WCCA = (5/17) * (10\%) + (12/17) * (15\%) = .1350 = 13.50\%$

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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

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

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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

$EOQ = \sqrt{2 \times 2000 \times 750 / 300}$

$= 100$

$EOQ = \sqrt{(2 \times \text{annual QTY} \times \text{Cost of order}) / \text{carrying cost per unit for whole$

year

Question No: 39 (Marks: 1) - Please choose one

As the amount of _____ increases the present value of net tax-shield benefits of

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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

FINAL TERM EXAMINATION MGT201- 2009

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

REF:

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

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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

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$$1000 = \text{pmt} * ((1.05)^{-8} - 1) / .05$$

$$1000 = \text{PMT} * 6.46$$

$$\text{PMT} = 1000 / 6.46 = 154.73$$

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

REF: 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

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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

Price of bond = pv of coup pyament + pv of face vlue

= $1000 / (1.09)^8$

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

Question No: 13 (Marks: 1) - Please choose one

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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

REF:

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?

$R_f + \beta[E(R_M) - R_f]$

$R_f + \beta[E(R_M) - R_f]$

$R_f + \beta[E(R_M) - R_f]$

$E(R_M) + R_f$

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?

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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

REF:

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

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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

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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 breakeven point

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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%

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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

REF:

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

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The firm's debt-equity ratio

All of the given option

The firm's common stocks only

REF:

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

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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

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The lender bears all the risk
FINAL TERM EXAMINATION

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

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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

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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

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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

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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

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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 loans

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

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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

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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

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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

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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?

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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_____.

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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?

$NI = (EBIT - xD rD) (1 - Tc)$

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$$NI = (EAT - xD rD) (1 - T_c)$$

$$NI = (EBIT + xD rD) (1 - T_c)$$

$$NI = (EBIT - xD rD) / (1 - T_c)$$

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

FINALTERM EXAMINATION MGT201-

Financial Management (Session - 3)

Time: 120 min

Marks: 87

Question No: 1 (Marks: 1) - Please choose one

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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?

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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: 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

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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

Mar ket Price

.

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

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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

Mar ket 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

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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

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)

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approach. Which of the following is the most appropriate form for financing a new

capital investment in plant and equipment?

6-month bank loans

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

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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

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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?

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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 ($r_D \times D + r_E \times E + r_P \times P$),

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:

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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

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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

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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

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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

FINALTERM 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

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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

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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

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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

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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?

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

_____.

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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

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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

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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?

.

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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%

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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

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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%

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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

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

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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?

$NI = (EBIT - xD rD) (1 - Tc)$

$NI = (EAT - xD rD) (1 - Tc)$

$NI = (EBIT + xD rD) (1 - Tc)$

$NI = (EBIT - xD rD) / (1 - Tc)$

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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

FINAL TERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 3)

Time: 90 min

Marks: 69

Question No: 1 (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 (Page#7)

Capital market

Primary market

Secondary market

Question No: 2 (Marks: 1) - Please choose one

Which of the following would be deductible as an expense on the corporation's income statement?

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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: 3 (Marks: 1) - Please choose one

In finance, we refer to the market where new securities are bought and sold for the first

time as the _____ market.

Money market

Capital market

Primary market

Secondary market

Reference:

Question No: 4 (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?

750,000Rs.3, 750,000

Rs.480,000

Rs.300,000

Rs.1, 500,000

Reference:

$300000 \times 0.08 / 0.05 = 480000$

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

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: 7 (Marks: 1) - Please choose one

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

_____.

A probability distribution

The expected return

The standard deviation

Coefficient of variation

Question No: 8 (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: 9 (Marks: 1) - Please choose one

What will happen to the expected return on a stock with a beta of 1.5 and a market risk

premium of 9% if the Treasury bill yield increases from 3% to 5%?

The expected return will increase by 2.0%

The expected return will remain unchanged

The expected return will increase by 1.0%

The expected return will increase by 3.0%

Question No: 10 (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

Question No: 11 (Marks: 1) - Please choose one

Why markets and market returns fluctuate?

Because of political factors

Because of social factors

Because of socio-political factors

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Because of macro systematic factors

Question No: 12 (Marks: 1) - Please choose one

The use of personal borrowing to change the overall amount of financial leverage to

which the individual is exposed is called:

Dividend recapture

Financial leverage

Private debt placement

Homemade leverage

Question No: 13 (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: 14 (Marks: 1) - Please choose one

The amount of current assets that varies with seasonal requirements is referred to as

_____ working capital.

Permanent

Net

Temporary

Gross

Question No: 15 (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.

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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

Question No: 16 (Marks: 1) - Please choose one

How should a successful acquisition be evaluated in the long-run?

The acquisition is successful if the acquirer is able to increase its earnings per share

(EPS), relative to what it would have been without the acquisition.

The acquisition is successful if the acquirer is able to reduce its debt-to-total asset

ratio, and hence risk, relative to what it would have been without the acquisition.

The acquisition is successful if the acquirer is able to diversify its asset base and

reduce its overall risk.

The acquisition is successful if the market price of the acquirer's stock increases

over what it would have been without the acquisition.

Question No: 17 (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: 18 (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

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Cost of inventory

Cost of shelf space

Question No: 19 (Marks: 1) - Please choose one

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

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: 20 (Marks: 1) - Please choose one

Which of the following is the suggestion of Trade-off theory of capital structure?

Firms should add leverage whenever interest rates are low

Firms with higher operating risk should use less debt

Firms should use 50% debt and 50% equity

Firms should use debt to overcome high par values of stock

Question No: 21 (Marks: 1) - Please choose one

What is the basic purpose of financial management?

Finding the best opportunities for the use of finance

Maintaining the books of accounts of the organization

Helping managers in managing the employees

Assessing the nature of employees and motivating them

Question No: 22 (Marks: 1) - Please choose one

“Value line” is an agency in America which performs which of the following functions?

Calculates the NPVs

Calculates the Correlation coefficients

Calculates the Annuities

Calculates the stock Betas

Question No: 23 (Marks: 1) - Please choose one

In NPV (Net Present Value) calculations, which of the following is used?

Expected rate of return

Required rate of return

Both expected rate of return and Required rate of return

None of the given options

Question No: 24 (Marks: 1) - Please choose one

In a market where the SML (Security Market Line) has steep slope, most of the investors

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are:

Risk lover

Risk averse P 114

Gamblers

None of the given options

Question No: 25 (Marks: 1) - Please choose one

If an asset B has steeper SML (security market line) than another asset A, which of the

following statements is TRUE?

Asset A is more risky than asset B

Asset B is more risky than asset A

Asset B is as risky as Asset A

None of the given options

Question No: 26 (Marks: 1) - Please choose one

Which of the following shows ALL possible risk–return combinations of all stocks in a

portfolio, whether these are efficient or not?

Security market line

Capital market line

Parachute graph

P 117 Parachute Graph

and Efficient Frontier (Hook Shaped Curve) shows

ALL possible Risk-Return Combinations for ALL combinations of stocks in the Portfolio

– whether efficient or not.

All of the given options

Question No: 27 (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

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Share Price first rises, then reaches maximum and finally falls

None of the given options

Question No: 28 (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

Question No: 29 (Marks: 1) - Please choose one

In the WACC equation ($r_D \times D + r_E \times E + r_P \times P$),

x P

represents which of the following?

Weight or Fraction of Total Capital value raised from common stock

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 retained earnings

Question No: 30 (Marks: 1) - Please choose one

The date on which the firm's directors issue a statement about the announcement of

dividend is known as:

Declaration Date

Holder-of-record Date

Ex-Dividend Date

Payment Date

Question No: 31 (Marks: 1) - Please choose one

You own 150 shares of ABC Company and it offers you the stock splits 2-for-1.

How

many additional shares will you receive after stock split?

100

150

200

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300

Question No: 32 (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

P 161

Working Capital Management: Focuses Current Assets & Liabilities of Balance Sheet in day-to-day operation

Question No: 33 (Marks: 1) - Please choose one

ABC Company wants to use hedging approach to financing assets. How can the firm use

this approach?

Finance temporary current assets with long-term liabilities

Finance short-term assets with equity

Finance permanent working capital with long-term liabilities

Finance all assets financed with a mixture of 50% equity and 50% long-term debt

Question No: 34 (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 homemade 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

Question No: 35 (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

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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: 36 (Marks: 1) - Please choose one

Which of the following is

NOT

a source of spontaneous financing?

Trade credits

Short term loans

Accrued taxes

Wages payable

P 169

Spontaneous Financing - Current Liabilities like Trade Credit and Accrued Taxes (payable) and Wages payable form its base.

Question No: 37 (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: 38 (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: 39 (Marks: 1) - Please choose one

Company A has to purchase another company. How do Company A pay for buying the

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other company?

In Cash

In Shares

Bank Borrowing

All of the given options

Question No: 40 (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

Question No: 41 (Marks: 1) - Please choose one

What happens to the total risk when leverage increases with high 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: 42 (Marks: 1) - Please choose one

From which of the followings, the stability of the firm can be judged?

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Question No: 43 (Marks: 1) - Please choose one

You have 25 Indian Rupees and you want to exchange these Indian Rupees with Pakistan

Rupees. You go to a money changer and he tells you the selling rate of 1 Indian Rupee is

1.8041 PKR. The rate 1.8041 PKR is referred as:

Bid rate

Forward rate

Future rate

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Ask rate

Question No: 44 (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: 45 (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: 46 (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: 47 (Marks: 1) - Please choose one

In Pakistan which of the following is assigned to bond rating and risk?

IMF

Moody's

Standard & poor

PACRA

P 21

Question No: 48 (Marks: 1) - Please choose one

In Gordon's formula ($r_{CE} = \text{DIV}_1 / P_0 + g$), r_{CE} is considered as _____ and “g” is

considered as _____.

Dividend yield, operating expenses

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Dividend yield, operating income

Dividend yield, capital loss

Dividend yield, capital gain

FINAL TERM EXAMINATION

MGT201- Financial Management (Session - 4)

Time: 90 min

Spring 2010

Marks: 69

Question No: 1 (Marks: 1) - Please choose one

How "Shareholder wealth" is represented in a firm?

The amount of salary paid to its employees

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

The number of people employed in the firm

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

Question No: 2 (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

s payable (short-term borrowings)

Question No: 3 (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: 4 (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

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Lower
Equal
Higher or lower

Question No: 5 (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

P 67 PV

= Intrinsic Value of Bond or Fair Price (in rupees) paid to invest in the bond. It is the Expected or Theoretical Price and NOT the actual Market Price

Question No: 6 (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: 7 (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: 8 (Marks: 1) - Please choose one

Which of the following factors might affect stock returns?

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The business cycle
Interest rate fluctuations
Inflation rates

All of the above

Question No: 9 (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: 10 (Marks: 1) - Please choose one

What will happen to the expected return on a stock with a beta of 1.5 and a market risk

premium of 9% if the Treasury bill yield increases from 3% to 5%?

The expected return will increase by 2.0%

The expected return will remain unchanged

The expected return will increase by 1.0%

The expected return will increase by 3.0%

Question No: 11 (Marks: 1) - Please choose one

Which of the following is the beta for the market portfolio?

0.25

-1.0

1.0

0.5

P 105 Market Portfolio whose Beta = +1.0

Question No: 12 (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

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1

-1

Question No: 13 (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

Question No: 14 (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: 15 (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: 16 (Marks: 1) - Please choose one

Why market values are often used in computing the weighted average cost of capital?

This is the simplest way to do the calculation

This is consistent with the goal of maximizing shareholder value (Doubted)

This is required in the U.S. by the Securities and Exchange Commission

None of the given options

Question No: 17 (Marks: 1) - Please choose one

What does the law of conservation of value implies?

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

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All of the given options

Question No: 18 (Marks: 1) - Please choose one

Which of the following has the same meaning as the working capital to financial analyst?

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Question No: 19 (Marks: 1) - Please choose one

How should a successful acquisition be evaluated in the long-run?

The acquisition is successful if the acquirer is able to increase its earnings per share

(EPS), relative to what it would have been without the acquisition.

The acquisition is successful if the acquirer is able to reduce its debt-to-total asset

ratio, and hence risk, relative to what it would have been without the acquisition.

The acquisition is successful if the acquirer is able to diversify its asset base and

reduce its overall risk.

The acquisition is successful if the market price of the acquirer's stock

increases over what it would have been without the acquisition.

Question No: 20 (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 P 160

Stock dividend

Extra dividend

Regular dividend

Question No: 21 (Marks: 1) - Please choose one

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The _____ is the proportion of earnings that are paid to common shareholders in the form of a cash dividend.

Retention rate

1 plus the retention rate

Growth rate

Dividend payout ratio

Question No: 22 (Marks: 1) - Please choose one

Why are dividend changes and not the absolute level of dividends perceived to be more

important to shareholders?

Managers only change dividends under threatening conditions

Dividend changes are thought to signal future expectations

MM state that the absolute level of dividends is irrelevant

Changes determine whether borrowing must occur

Question No: 23 (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: 24 (Marks: 1) - Please choose one

In which of the following rate fluctuations can convert a good investment decision into a

bad one.

Inflation rate

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Interest rate P 34

Poverty rate

Currency rates

Question No: 25 (Marks: 1) - Please choose one

In a market where the SML (Security Market Line) has steep slope, most of the investors

are:

Risk lover

Risk averse

Gamblers

None of the given options

Question No: 26 (Marks: 1) - Please choose one

In term of diversification, the efficient portfolios must lie on which of the following?

Capital market line

Money market line

Security market line

None of the given options

Question No: 27 (Marks: 1) - Please choose one

Which of the following is the reason that a single overall cost of capital is often used to evaluate projects?

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

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

investment proposal (Doubted)

Question No: 28 (Marks: 1) - Please choose one

Which of the following is also called the opportunity cost of capital?

Assumed rate of return

Internal rate of return

Required rate of return

Expected rate of return

Question No: 29 (Marks: 1) - Please choose one

What would be the major threat to a company when it is purely debt financed?

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Investors can interfere in the management of the company

It has to pay fixed amount of interest

Investors becomes the owners of the company

It has to pay dividends

Question No: 30 (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

P 154

Cost of Capital increases, reaches a maximum point, and then rises

None of the given options

Question No: 31 (Marks: 1) - Please choose one

Company ABC offers its stockholders 10 % stock dividends and Mr. S is one of its

stockholders being the owner of 250 stocks. How many shares Mr. S has after availing

the stock dividend?

25

50

275

250

Question No: 32 (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: 33 (Marks: 1) - Please choose one

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Which of the following is

NOT

a current asset investment policy in practice?

Fat Cat

Pay Back Period

Moderate Policy

Lean & Mean

Question No: 34 (Marks: 1) - Please choose one

Which of the following industries is considered as capital intensive?

Pharmaceutical industry

Textile industry

Information technology

Automobile industry

Question No: 35 (Marks: 1) - Please choose one

Leveraged capital structure is suitable for which kind of companies?

For co-operative societies

For large companies who are earning high volume of sales revenue

For medium companies whose sales are average

For small companies whose sales are low

Question No: 36 (Marks: 1) - Please choose one

Company C sells its customers on the term 3/15, net 30 bases. What does it mean?

3% discount for customers who pay within 30 days

3% discount for customers who pay within 15 days

15% discount for customers who pay within 30 days

None of the given options

P 167 "Sell on 5/10.net 30 basis". 30 basis Means customer must pay full cash value

within 30 days. 5/10.net means 5% discount for customers who pay within 10 days.

So it is an incentive for customer to pay cash quickly.

Question No: 37 (Marks: 1) - Please choose one

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What is the average collection period of the firm if it makes 50% of sales on 40 day credit

and 50% on 50 day credit?

40 days

45 days P 167

50 days

90 days

Question No: 38 (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 P 168

Conservative working capital policy

Aggressive working capital policy

Any of the given policy

Question No: 39 (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: 40 (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: 41 (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

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

Question No: 42 (Marks: 1) - Please choose one

Which of the following refers to taking over a company and then selling its parts at a profit as the sum of target company's parts is worth less than the worth of those individual parts.

Cherry picking

Divestiture

Spin-off

Asset stripping

P 175

Asset Stripping: separate out the non-profitable and sell its assets individually to generate cash and restore profitability

Question No: 43 (Marks: 1) - Please choose one

Which one of the following is correct for the forward exchange rate?

It is an agreed price at which two currencies are exchanged immediately

It is an agreed price at which two currencies will be exchanged at some future date

It is an agreed price at which two currencies will be exchanged on a specific future

date and location

It is an agreed price at which two currencies are exchanged at specific location immediately

Question No: 44 (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

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Rs. 456 per AUD

Question No: 45 (Marks: 1) - Please choose one

How much a hand bag costs you in Kuwaiti Dinar (KWD) if its price in Pakistan Rupee

is Rs. 1770; keeping in mind the spot rate of Rs. 1 is 295 KWD?

0.167 KWD

6 KWD

295 KWD

522150 KWD

Question No: 46 (Marks: 1) - Please choose one

Which of the following document is not prepared while making a financial plan?

Cash budget

Pro-forma balance sheet

Pro-forma income statement

Cash flow statement

P 25

Question No: 47 (Marks: 1) - Please choose one

Which of the following describes a set of projects where only one project can be selected?

Mutually exclusive projects

Supplementary projects

Complementary projects

Independent projects

Question No: 48 (Marks: 1) - Please choose one

For finite investment in preferred stock the valuation formula will be:

$P_0 = \text{DIV}_1 / r_{PE}$

$P_0 = \text{Interest yield} + \text{dividend yield}$

$P_0 = \text{DIV}_1 / (1+r_{PE})^t + P_n / (1+r_{PE})^t$

$P_0 \times P_n / (1+r_{PE})^t = \text{DIV}_1 / (1+r_{PE})^t$

REF: p 76 Finite Investments in Preferred Stock

:

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$$PV = \frac{DIV_t}{(1 + r_{PE})^t} + \frac{P_n}{(1 + r_{PE})^n}$$

FINAL TERM EXAMINATION

Fall 2009

MGT201- Financial Management (Session - 4)

Time: 120 min

Marks: 87

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

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 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: 4 (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: 5 (Marks: 1) - Please choose one

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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: 6 (Marks: 1) - Please choose one

Which of the following statements is most correct?

The future value of an annuity due is greater than an otherwise identical ordinary annuity

A reduction in the discount rate will increase the future value of an otherwise identical cash flow stream

Continuous compounding will result in a higher present value relative to an otherwise

identical investment that is compounded monthly at the same nominal rate

The FVIFA ($i\%$, N periods) equals the sum of the PVIF($i\%$, n) for $n=1$ to N periods

Question No: 7 (Marks: 1) - Please choose one

The estimated benefits from a capital budgeting project are expected as cash flows rather

than income flows because _____.

It is more difficult to calculate income flows than cash flows

It is cash, not accounting income that is central to the firm's capital budgeting decision

This is required by the accounting profession

This is required by the Internal Revenue Service (IRS) and enforced through filings

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with the Securities and Exchange Commission (SEC)

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

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: 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

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

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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

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: 13 (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: 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

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

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Question No: 16 (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: 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

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

Question No: 19 (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: 20 (Marks: 1) - Please choose one

Which of the following is

NOT

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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: 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 is related to the use Lower financial leverage?

Fixed cost

Variable cost

Debt financing

Common equity financing

Question No: 23 (Marks: 1) - Please choose one

Which of the following is the cash required during a specific period to meet interest

expenses and principal payments?

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question No: 24 (Marks: 1) - Please choose one

Suppose that the Euro is selling at a forward discount in the forward -exchange market.

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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: 25 (Marks: 1) - Please choose one

Which of the following is a reason suggested by the authors for a divestiture, such as a

sell-off or spin-off?

Synergy

Reverse synergy

Hubris

Economies of scale

Question No: 26 (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: 27 (Marks: 1) - Please choose one

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

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increase over time

Alternating cash dividends with stock dividends

Question No: 28 (Marks: 1) - Please choose one

Why Investors may prefer lower dividends to higher dividends?

The low dividends are more predictable

Capital gains may be taxed less heavily than dividends

Of the "bird in the hand" logic

Low dividends indicate heavy investment for the future

Question No: 29 (Marks: 1) - Please choose one

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Which of the following is

NOT

correct regarding issuing company's repurchase of their shares?

Companies pay out money to shareholders by repurchasing their shares

Stock repurchases have grown slowly but gradually in recent years; however

they do not substitute for dividends

Instead, repurchases are generally used to make major one-off changes to the firm's capital structure, particularly when cash resources have outrun good investment

opportunities

Repurchases can be like bumper dividends; they cause large amounts of cash to

be paid to investors when the firm buys back their shares

Question No: 30 (Marks: 1) - Please choose one

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

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Question No: 31 (Marks: 1) - Please choose one

If the following are the balance sheet changes, which one of them would

NOT

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 s payable

Question No: 32 (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

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present value of the company?

Rs.12.08 billion

Rs.18.15 billion

Rs.14.16 billion

Rs.16.67 billion

Question No: 33 (Marks: 1) - Please choose one

While calculating the stock Beta graphically, y-intercept is known as:

Alpha

Beta

Gamma

None of the given options

Question No: 34 (Marks: 1) - Please choose one

In a market where the SML (Security Market Line) has low slope, most of the investors

are:

Risk lover

Risk averse

Professional investors

None of the given options

Question No: 35 (Marks: 1) - Please choose one

What is the assumed value of risk free rate of return in Pakistan?

5%

8%

10%

12%

Question No: 36 (Marks: 1) - Please choose one

In term of diversification, the efficient portfolios must lie on which of the following?

Capital market line

Money market line

Security market line

None of the given options

Question No: 37 (Marks: 1) - Please choose one

Which of the following is/are ideal source(s) of capital for profitable firms

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because of no
transaction costs?
Sizeable Cash
Retained Earnings
Both Sizeable Cash and Retained Earnings
None of the given options

Question No: 38 (Marks: 1) - Please choose one

Which of the following is/are the assumption(s) of MM's (Miller Modigliani) Theory?

There are no brokerage costs
There are no taxes
There are no bankruptcy costs

All of the given options

Question No: 39 (Marks: 1) - Please choose one

How many approaches are used to calculate the required rate of return for common equity?

1
2
3
5

Question No: 40 (Marks: 1) - Please choose one

Which of the following allows to by-pass the errors of forecasting?

Capital asset pricing model
Gordon's formula
Share valuation formula

Standard deviation

REF

: The typical measure of the forecast errors is the standard deviation of the one month ahead for ecast error and is de d here as .

Question No: 41 (Marks: 1) - Please choose one

The Impairment of Capital Rule refers to what?

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Cash Dividends can only be paid from cash

Dividends can not exceed Retained Earnings

Restricting the dividend payout if earnings are too low to pay interest

Investors buy stocks whose dividend policy they like

Question No: 42 (Marks: 1) - Please choose one

Tax Preference Theory suggests that shareholder wealth is maximized by low dividend

payout because of which of the following reasons?

Marginal tax rate on dividends is lower than on capital gains

Marginal tax rate on dividends is higher than on capital gains

Marginal tax rate on dividends is equal to capital gains

None of the given options

Question No: 43 (Marks: 1) - Please choose one

Company ABC offers its stockholders 10 % stock dividends and Mr. S is one of its

stockholders being the owner of 250 stocks. How many shares Mr. S has after availing

the stock dividend?

25

50

275

250

Question No: 44 (Marks: 1) - Please choose one

All of the following are considered while computing the working capital of a firm

EXCEPT:

Inventory

Accounts Receivables

Accrued expenses

Marketable Securities

Question No: 45 (Marks: 1) - Please choose one

Firms increase financial leverage because of the increase in which of the

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following?

Assets

Debt

Equity

Expenses

Question No: 46 (Marks: 1) - Please choose one

Which of the following is called the father of corporate finance?

Prasanna Chandra

Modigliani & Miller

Van Horne & Gittman

Robert Alan Hill

Question No: 47 (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: 48 (Marks: 1) - Please choose one

If selling price per unit falls and all other factors remain constant, the operating break-even points (units) will _____.

Fall

Rise

Remain the same

None of the given options

Question No: 49 (Marks: 1) - Please choose one

A car manufacturing company purchases radiators, axles and other parts to be used in

manufacturing the car from suppliers rather than making them itself. This refers to which

of the following?

Outsourcing

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Just in time

Aggressive approach

Conservative approach

Question No: 50 (Marks: 1) - Please choose one

From which of the following, negative net worth of the company is expressed?

Experiencing a project failure

Competitor's insolvency

Experiencing technical insolvency

Experiencing accounting insolvency

Question No: 51 (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: 52 (Marks: 1) - Please choose one

Which of the following is not one of the types of merger?

Horizontal Merger

Vertical Merger

Diagonal Merger

Conglomerate Merger

Question No: 53 (Marks: 1) - Please choose one

In which of the following theory the value of the firm increases gradually because of tax

savings but with excessive leverage the value starts declining?

M&M theory

Trade off theory

Law of diminishing returns

Signaling theory

Question No: 54 (Marks: 1) - Please choose one

Which of the following statements is true about business risk?

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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

FINAL TERM EXAMINATION

Spring 2010 (Session - 3)

Time: 90 min

Marks: 69

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

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

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

$1000 / .08$

Question No: 4 (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

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Can not be found

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

Which of the following has "Beta" as a measure of risk?

Firm specific risk

Diversifiable risk

Unique risk

Market risk

Question No: 7 (Marks: 1) - Please choose one

Which of the following risk can be diversified away?

Un systematic risk pg94

Beta risk

Firm specific risk

Market risk

Question No: 8 (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: 9 (Marks: 1) - Please choose one

Which of the following is the variability of return on stocks or portfolios not

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explained

by general market movements. It is avoidable through diversification?

Systematic risk

Standard deviation

Unsystematic risk

Financial risk

Question No: 10 (Marks: 1) - Please choose one

The Higher the Risk of a Share, the _____ its Rate of Return and the _____ its

Mar ket Price.

Higher; Lower

Lower; Higher

Higher; Higher

Lower; Lower

Question No: 11 (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: 12 (Marks: 1) - Please choose one

Capital budgeting is a decentralized function assigned to:

Individuals

Departments

Teams

All of the give

Question No: 13 (Marks: 1) - Please choose one

Market risk is measured in terms of the _____ of the market portfolio or index.

Variance

Covariance

Standard deviation

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Correlation coefficient

Question No: 14 (Marks: 1) - Please choose one

Why market values are often used in computing the weighted average cost of capital?

This is the simplest way to do the calculation

This is consistent with the goal of maximizing shareholder value

This is required in the U.S. by the Securities and Exchange Commission

None of the given options

Question No: 15 (Marks: 1) - Please choose one

Calculate the break-even (quantity) point given the following information. The firm has

Rs.1, 000,000 in fixed costs. The firm produces only one product and anticipates selling

each unit for Rs.25 with variable costs of Rs.5 per unit.

200,000

50,000

40,000

There is not sufficient information provided to calculate the sales break-even point.

Question No: 16 (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: 17 (Marks: 1) - Please choose one

In the context of operating leverage break-even analysis, if selling price per unit falls and

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point in units?

Fall

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Rise

Stay the same

Incomplete information

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Low degree of solvency

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Dividend reinvestment

Stock dividends

Stock splits

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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%

= Profit Margin x Asset Turnover x Leverage Factor (or Equity Multiplier)

= (Net Income/Sales) x (Sales/Assets) x (Total Assets/Equity)

= Net Income / Equity

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Question No: 37 (Marks: 1) - Please choose one

Business risk stems from operations and the _____ of the firm.

Liability

Asset

Capital

Revenue

Question No: 38 (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

Question No: 39 (Marks: 1) - Please choose one

Every firm strives to achieve which of the following?

To keep Return on Equity (ROE) lower than Expected return (rE)

To keep Return on Equity (ROE) equal to Expected return (rE)

To keep Return on Equity (ROE) higher than Expected return (rE)

All of the given option

Question No: 40 (Marks: 1) - Please choose one

Capital structure theory is presented by which of the following?

Modigliani & Miller

Brigham & Houston

Van Horne & Gittman

Robert Alan Hill

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Question No: 41 (Marks: 1) - Please choose one

Which of the following is (are) the characteristics of operating lease?

Lessor maintains and finances the Asset

It is not fully amortized

It is cancelable

All of the given options

Question No: 42 (Marks: 1) - Please choose one

When market value of another similar firm is less than the cost of replacing the assets of

your own firm, it is better to buy another firm. It is known as:

Cherry picking

Divestiture

Spin-off

Asset stripping

Question No: 43 (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

Question No: 44 (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: 45 (Marks: 1) - Please choose one

If Return on Equity (ROE) is higher than the Expected Return ($ROE > r_E$), then which of

the following is better for the firm to pursue?

To plough the retained earnings back into the business

To pay out the dividend this will raise the share price

To finance short-term needs with long-term debt

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To finance seasonal needs with long-term funds

Question No: 46 (Marks: 1) - Please choose one

Which of the following is a bond that could be defined as “a bond bearing a yield that

may rise or fall according to the fluctuations in the market”?

High yield bond

Floating rate bond

Low coupon bond

Euro bond

Question No: 47 (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: 48 (Marks: 1) - Please choose one

When

= 0 it means that:

AB

Investments are not correlated

Investments are perfectly positively correlated

Investments are perfectly negatively correlated

None of the given options

FINAL TERM EXAMINATION Spring 2010

My today's paper at 12:00pm

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

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A low plowback ratio and a high P/E ratio

The square of the standard deviation is known as the _____.

Beta

Expected return

Coefficient of variation

Variance

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

Diversification

Standard deviation

Variance

Covariance

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

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

_____.

Market risk

Total risk

Diversified risk

Non- Systematic risk

While calculating the Stock Portfolio Risk using 3x3 Matrix Approach, non-diagonal

terms shown in Boxes are called:

Variance

Coefficient

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Covariance

Correlation

While calculating the stock beta graphically, the formula to calculate the beta coefficient

for stock B is:

$$(r_M^* - r_{RF}) / (r_B^* - r_{RF})$$

$$(r_B^* - r_{RF}) / (r_M^* - r_{RF})$$

$$(r_B^* - r_{RF}) / r_{RF}$$

$$(r_B^* - r_{RF}) / r_M^*$$

High uncertainty is associated with which of the following?

Preferred stock

Common stock

Bonds

T – Bills

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

Capital structure theory is presented by which of the following?

Robert Alan Hill

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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

Under Net income approach, which of the following is a correct sequence of

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calculating
cost of capital?

Net income – Total firm's market value – WACC (Doubted)

Net income – WACC – total firm's market value

WACC – Net income – market value of equity

Market value of firm – WACC – Net income

The DuPont Approach breaks down the earning power on shareholders' book value

(ROE) as follows: $ROE = \frac{\text{Net Income}}{\text{Equity}}$

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

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

Which of the following is NOT a major cause of unsystematic risk.

New competitors

New product management

Worldwide inflation

Strikes

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

0

0.5

1

-1

Market risk is measured in terms of the _____ of the market portfolio or index.

Variance

Covariance

Standard deviation

Correlation coefficient

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:

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Pay back period

Internal rate of return

Net present value

Profitability index

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%

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

Which of the following statement depicts the disadvantage of issuing debt?

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

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

If an investor is risk averse, then which of the following option s best suits him?

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Debentures

Common stock

T – Bills

Preferred stock

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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

The square of the standard deviation is known as the _____.

Beta

Expected return

Coefficient of variation

Variance

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

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

0

0.5

1

-1

Which of the following is the market for short term debt?

Money market

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Capital market

Real asset market

Equity market

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%

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

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

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

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

Standard deviation

EPS approach

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Matrix approach

Gordon's Approach

Market risk is measured in terms of the _____ of the market portfolio or index.

Variance

Covariance

Standard deviation

Correlation coefficient

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

0

1.0

-1.0

1.5

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%

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: 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

The presence of which of the following costs is NOT used as a major argument

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against
the M&M arbitrage process?

Transaction costs

Insurance costs

Bankruptcy costs

Agency costs

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

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

Which of the following depicts the break even point in best way?

EBIT = 0

EBIT < 0

EBIT > 0

None of the given options

2 currency related MCQ's

1-How many Swis frank in Pakistani rupees????

2- How many Aud will be in pak rupees???

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?

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A financial

An operating

Both financial & operating lease

None of the given options

Question No: 2 (Marks: 1) - Please choose one

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

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

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: 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:

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Payback period

Internal rate of return

Net present value

Profitability index

Question No: 6 (Marks: 1) - Please choose one

Which of the following has "Beta" as a measure of risk?

Firm specific risk

Diversifiable risk

Unique risk

Market risk

Question No: 7 (Marks: 1) - Please choose one

Which of the following risk can be diversified away?

Un systematic risk

Beta risk

Firm specific risk

Market risk

Question No: 8 (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: 9 (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: 10 (Marks: 1) - Please choose one

The Higher the Risk of a Share, the _____ its Rate of Return and the _____ its

Mar ket Price.

Higher; Lower

Lower; Higher

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Higher; Higher

Lower; Lower

Question No: 11 (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: 12 (Marks: 1) - Please choose one

Capital budgeting is a decentralized function assigned to:

Individuals

Departments

Teams

All of the given options

Question No: 13 (Marks: 1) - Please choose one

Mar ket risk is measured in terms of the _____ of the market portfolio or index.

Variance

Covariance

Standard deviation

Correlation coefficient

Question No: 14 (Marks: 1) - Please choose one

Why market values are often used in computing the weighted average cost of capital?

This is the simplest way to do the calculation

This is consistent with the goal of maximizing shareholder value

This is required in the U.S. by the Securities and Exchange Commission

None of the given options

Question No: 15 (Marks: 1) - Please choose one

Calculate the break-even (quantity) point given the following information. The firm has

Rs.1, 000,000 in fixed costs. The firm produces only one product and anticipates selling

each unit for Rs.25 with variable costs of Rs.5 per unit.

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200,000

50,000

40,000

There is not sufficient information provided to calculate the sales break-even point.

Question No: 16 (Marks: 1) - Please choose one

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

Raw materials

Depreciation

Bad-debt losses

Production labor

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Stock's total Risk = Market Risk + Company Risk

All of the given options

P 109

If a Stock is Part of a Totally Diversified Portfolio then its

Company Risk = 0. Therefore Total Risk = Market Risk. And the Stock points will lie

exactly on the Regression line.

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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: 37 (Marks: 1) - Please choose one

Business risk stems from operations and the _____ of the firm.

Liability

Asset

Capital

Revenue

Question No: 38 (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

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short term debt

Financing seasonal as well as permanent requirements of current assets with long term debt

Question No: 39 (Marks: 1) - Please choose one

Every firm strives to achieve which of the following?

To keep Return on Equity (ROE) lower than Expected return (rE)

To keep Return on Equity (ROE) equal to Expected return (rE)

To keep Return on Equity (ROE) higher than Expected return (rE)

All of the given option

Question No: 40 (Marks: 1) - Please choose one

Capital structure theory is presented by which of the following?

Modigliani & Miller

Brigham & Houston

Van Horne & Gittman

Robert Alan Hill

Question No: 41 (Marks: 1) - Please choose one

Which of the following is (are) the characteristics of operating lease?

Lessor maintains and finances the Asset

It is not fully amortized

It is cancelable

All of the given options

Question No: 42 (Marks: 1) - Please choose one

When market value of another similar firm is less than the cost of replacing the assets of

your own firm, it is better to buy another firm. It is known as:

Cherry picking P 176

Divestiture

Spin-off

Asset stripping

Question No: 43 (Marks: 1) - Please choose one

Most of the firms wish to maintain their capital structure in the form of which

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of the
following?
100% equity

100% debt

Mix of debt and equity

100% from the personal savings

Question No: 44 (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: 45 (Marks: 1) - Please choose one

If Return on Equity (ROE) is higher than the Expected Return ($ROE > r_E$),
then which of

the following is better for the firm to pursue?

To plough the retained earnings back into the business

To pay out the dividend this will raise the share price

To finance short-term needs with long-term debt

To finance seasonal needs with long-term funds

Question No: 46 (Marks: 1) - Please choose one

Which of the following is a bond that could be defined as “a bond bearing a
yield that

may rise or fall according to the fluctuations in the market”?

High yield bond

Floating rate bond

Low coupon bond

Euro bond

Question No: 47 (Marks: 1) - Please choose one

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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: 48 (Marks: 1) - Please choose one

When $AB = 0$ it means that:

Investments are not correlated (doubted)

Investments are perfectly positively correlated

Investments are perfectly negatively correlated

None of the given options

FINAL TERM EXAMINATION

Spring 2010

MGT201- Financial Management (Session - 1)

Time: 90 min

Marks: 69

Question No: 1 (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: 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

ABC's and XYZ's debt-to-total assets ratio is 0.4. What is its debt-to-equity ratio?

0.2

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0 .77

0.667

0.333

Question No: 4 (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: 5 (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: 6 (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

P 65

Mortgage Bonds are backed by real property (ie. Land, building,, machinery, inventory) whose value is generally higher than that of the value of the bonds issued.

Question No: 7 (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: 8 (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

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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: 9 (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: 10 (Marks: 1) - Please choose one

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

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 No: 11 (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: 12 (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: 13 (Marks: 1) - Please choose one

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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: 14 (Marks: 1) - Please choose one

The stock in your portfolio was selling for Rs. 40 per share yesterday, but has today

declared a three for two stock split. Which of the following statements seems to be true?

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 (Doubted)

There will be one-and-one-half times as many shares outstanding, and they will sell

for Rs.60.00 each

Question No: 15 (Marks: 1) - Please choose one

Which of the following's existence on the balance sheet generates tax advantages that

directly influence the capital structure of the firm?

Long-term debt

Retained earnings

All of the given answers are correct (Doubted)

A large proportion of fixed assets

Question No: 16 (Marks: 1) - Please choose one

Which of the following is an example of restructuring the firm?

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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 No: 17 (Marks: 1) - Please choose one

While calculating the Stock Portfolio Risk using 3x3 Matrix Approach, the terms shown

in Boxes on Diagonal are called:

Covariance

Variance P 97

Coefficient

Correlation

Question No: 18 (Marks: 1) - Please choose one

What is the basis of CAPM which describes how the expected return of a stock or

portfolio is correlated to the return of the financial market as a whole?

Correlation (Doubted)

Beta

NPV

Cash flow

Question No: 19 (Marks: 1) - Please choose one

Ahmad is a 40-year-old employee and he wants to invest his money. He should put how

much money in stocks?

The amount to be invested is a matter of personal preference, based on the

Ahmad's goal for his money

The amount is a matter of personal preference, based on the investment' risk

only (Doubted)

The rule of thumb suggests that 40% of his assets be in cash/bonds and the remaining

60% in stocks

The rule of thumb suggests that 60% of his assets be in cash/bonds and the remaining

40% in stocks

Question No: 20 (Marks: 1) - Please choose one

If a stock is part of totally diversified portfolio then which of the following is TRUE for

that stock?

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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: 21 (Marks: 1) - Please choose one

Which of the following is the characteristic of Arbitrage Pricing Model that offers the greatest potential advantage over the Capital Asset Pricing Model?

It gives the variability of coefficients of sensitivity for a given asset over time

It provides accurate measurement of the risk-free rate of return over historical time

periods

It uses several factors instead of a single market index to enlighten the risk

return relationship P 119

It identifies the anticipated changes in production, inflation and term structure as key

factors in explaining the risk-return relationship

Question No: 22 (Marks: 1) - Please choose one

Which of the following is true about the security market line (SML) derived from the

Arbitrage pricing model?

The benchmark portfolio for the Security market line may be any well-diversified

portfolio

The Security market line for the Arbitrage pricing model has an intercept equal

to the expected return on the market portfolio doubted

The Security market line for the Arbitrage pricing model shows expected return in

relation to portfolio standard deviation

The Security market line has a downward slope

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Question No: 23 (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: 24 (Marks: 1) - Please choose one

In the WACC equation ($r_D \times D + r_E \times E + r_P \times P$),

$x E$ 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: 25 (Marks: 1) - Please choose one

The Impairment of Capital Rule refers to what?

Cash Dividends can only be paid from cash

Dividends can not exceed Retained Earnings

Restricting the dividend payout if earnings are too low to pay interest

Investors buy stocks whose dividend policy they like

P 157 Impairment of Capital Rule:

Dividends can NOT exceed Retained Earnings

which are shown on Balance Sheet.

Question No: 26 (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

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William John and Lehman

Question No: 27 (Marks: 1) - Please choose one

The date on which the right to the current dividend no longer accompanies a stock is

termed as:

Declaration Date

Holder-of-record Date

Ex-Dividend Date

Payment Date

Question No: 28 (Marks: 1) - Please choose one

Which of the following industry is not the example of high leveraged firm?

Textile industry

Cement plant

Education sector

I.T industry

Question No: 29 (Marks: 1) - Please choose one

Which of the following current asset investment policy leads firm to maintain small

amount of current assets?

Fat cat working capital policy

Lean & Mean working capital policy

Moderate working capital policy

All of the given options

Question No: 30 (Marks: 1) - Please choose one

Which of the following industries is considered as capital intensive?

Pharmaceutical industry

Textile industry

Information technology

Automobile industry

Question No: 31 (Marks: 1) - Please choose one

If total assets of the firm are equal to Rs. 2,000 and debt is Rs. 1,000 then the financial

leverage of the firm is equal to which of the following?

$(FL = Debt / (Debt +$

Equity))

40%

50% P 191

60%

65%

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Question No: 32 (Marks: 1) - Please choose one

Which of the following is called the father of corporate finance?

Prasanna Chandra

Modigliani & Miller

Van Horne & Gittman

Robert Alan Hill

Question No: 33 (Marks: 1) - Please choose one

XYZ Company is financing its seasonal requirements of current assets with short-term

debt and permanent requirement of current assets with long term debt. The firm is using

which of the following approach to finance its working capital?

Aggressive approach

Conservative approach

Moderate approach P 168

Hybrid approach

Question No: 34 (Marks: 1) - Please choose one

NM Corporation is financing its seasonal as well as permanent requirements of current

assets with long term debt. The firm is using which of the following approaches to

finance its working capital?

Aggressive approach

Conservative approach P 168

Moderate approach

Hybrid approach

Question No: 35 (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

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Short-term Loan

All of the given options

Question No: 36 (Marks: 1) - Please choose one

Which of the following is

NOT

a source of spontaneous financing?

Trade credits

Short term loans

Accrued taxes

Wages payable

Question No: 37 (Marks: 1) - Please choose one

Optimal debt/ equity ratio lies between which of the following range?

20/80 to 70/30 P 144

30/70 to 50/50

40/60 to 60/40

20/80 to 60/40

Question No: 38 (Marks: 1) - Please choose one

Company A and Company B merged together in such a way that the combined value and

performance of both these companies is greater than the sum of their separate individual

parts. This phenomenon is referred as:

Synergy

Acquisition

Leveraged buy-out

Hostile merger

Question No: 39 (Marks: 1) - Please choose one

Which of the following is not one of the types of merger?

Horizontal Merger

Vertical Merger

Diagonal Merger

Conglomerate Merger

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Question No: 40 (Marks: 1) - Please choose one

A target firm does not want to be acquired. That's why it has taken an excessive short

term debt to appear unhealthy for the acquiring firm. This phenomenon is referred as:

White Knight

Poison Pill

Leveraged Buy-Outs

White squire

Question No: 41 (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: 42 (Marks: 1) - Please choose one

With the increased rate of total risk of the firm, which of the following will be greatly affected?

Required rate of return

Expected rate of return

Multiple rate of return

Internal rate of return

Question No: 43 (Marks: 1) - Please choose one

Which of the following is called as spontaneous financing?

Current assets

Fixed assets

Current liabilities

Fixed liabilities

Question No: 44 (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: 45 (Marks: 1) - Please choose one

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Which of the following is true about payback period?

The regular payback method recognizes all cash flows over a project's life

It recognizes all cash flows over a project's life, and it also adjusts these cash flows to

account for the time value of money

It is useful as an indicator of a project's liquidity as it gives an idea that how long

it will take to recover the funds invested in a project

The regular payback method was widely used, but virtually no companies even calculate the payback today

Question No: 46 (Marks: 1) - Please choose one

Which of the following describes a set of projects where only one project can be selected?

Mutually exclusive projects P 47

Supplementary projects

Complementary projects

Independent projects

Question No: 47 (Marks: 1) - Please choose one

Risk can be measured with which of the following statistical tool?

Standard deviation

Range

T- test

Mean, median and mode

Question No: 48 (Marks: 1) - Please choose one

Which is the best measure for an asset held in a diversified portfolio?

Beta

Variance

Standard deviation

Coefficient of variation

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