<b>T</b>	r		
	am	Δ	•
Τ.	аш	·	

## **Enrolment No:**



## UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

## Online End Term Examination, May 2021

Course: Financial Management Program: MBA General

Code: FINC 7019

Semester: II Time 03 hrs.

Max. Marks: 100

## **SECTION A**

- 1. Each Question will carry 5 Marks
- **2.** Instruction: Select the correct answer(s)

S. No.	Question	CO
Q 1	We estimate that there will be two states of the economy, boom and bust, in the next period, with probability of 30% and 70%, respectively. We also estimate that the return on Stock A will be 50% in the boom state and -10% in the bust state. What is the expected return on Stock A?	CO1
	a) 6%	
	b) 7%	
	c) 8%	
	d) 9%	
	e) 10%	
Q2	Which of the following is an unsystematic risk?	CO1
	a) Bank of Canada released latest news on inflation.	
	b) A mid-sized firm announced the surprise takeover of a small firm.	
	c) IBM stocks just met its earnings expectation.	
	d) Unemployment rises in the European Union.	
	e) The release of Apple's new iPad has increased U.S. real GDP.	

Q3	The capital asset pricing model (CAPM) can best be defined as:	CO1
	a) Slope of the SML, the difference between the expected return on a market portfolio and the risk-frate.	
	b) Equation of the SML showing the relationship between expected return and beta.	
	c) Positively sloped straight line displaying the relationship between expected return and beta.	
	d) The amount of systematic risk present in a particular risky asset relative to an average risky asset.	
	e) Principle stating that the expected return on a risky asset depends only on that asset's systematic risk.	
Q4	10,000 units of face value bonds were issued at 98. Additionally, there are 1million shares outstanding having an investor's return of 12% and continued dividends of \$3 per share. Given this information, calculate the percentage of equity in relation to total market value.	CO1
	a) 71.84%	
	b) 60.75%	
	c) 50%	
	d) 44.28%	
	e) 38.16%	
Q5	What is the primary determinant of the cost of capital for an investment?	
	a) Use of funds.	CO1
	b) Source of funds.	001
	c) LIBOR.	
	d) Prime rate.	
	e) T-bill rate.	
Q6	Certain projects can never have a payback period.	CO1
	True	
	False	

	Section: B Each Question Carries 10 marks	
Q7	You wish to deposit an amount now that will accumulate to \$10,000 in 10 years. Determine the deposit, if interest is 6.5% compounded monthly.	CO2
Q 8	A coupon bond has a quoted price of \$985, a face value of \$1,000, coupon rate of 8.5% paid semiannually, and a maturity of 8 years. If the coupon payment is due in 2 months, how much will a buyer pay for this coupon bond?	CO2
Q 9	A company has 40% equity and 60% debt. Return on equity is 8%, while the return on debt is 5%. If the tax rate is 30%, determine the WACC of the firm	CO3
Q 10	A project that costs \$1 million will yield annual after-tax operating cash flow (including depreciation tax shields) of \$500,000 for the next five years. The firm has a D/E ratio of 0.5 and after-tax cost of equity and debt of 20% and 10%, respectively. As this project is slightly riskier than the firm's normal operations, it is decided that an adjustment factor of +3% will be added to the discount rate for the project. What is the this project's NPV?	CO3
Q 11	Ajax corporation has a project with a 10 year life and a \$200,000 cost. The project is depreciated straight life over the life of the project. Other fixed costs amount to \$400,000 and variable costs per unit are \$30. If the company intends on selling 50,000 units and has a 10% return requirement, calculate the company's financial break-even price.	СОЗ
	Question carries 20Marks. Section C	
Q12	Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues.	CO4