Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2022

Course: Financial Management **Semester: II**
Program: MBA (Core, AVM, BA, DB, FM, IB, LSCM) **Time : 03 hrs.**
Course Code: FINC7019 **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
1	Which of the following is not an example of systematic risk? A) Rise in inflation B) Penalty by regulator C) Rise in tax rate D) Natural disaster	**2**	**CO1**
2	Which of the following explain beta- A) Beta is the sensitivity of stock with respect to risk free rate B) Beta is the sensitivity of stock with respect to bank rate C) Beta is the sensitivity of stock with respect to market D) Beta is the sensitivity of stock with respect to exchange rate	**2**	**CO1**
3	Which of the following is the relationship between discount rate and riskiness of the cash flows to equity investors. A) Positive B) Negative C) Neutral D) Zero	**2**	**CO1**
4	Which of the following capital budgeting technique does not take care of time value of money A) IRR B) NPV C) Payback period D) Discounted payback period	**2**	**CO1**
5	It is not possible to compare or combine values at the same point in time. A) True B) False	**2**	**CO1**

6	Holding other factors constant, an increase in discount rate will increase future value. A) False B) True	**2**	**CO1**
7	Which of the following is used to determine cost of debt? A) Beta of the firm B) Unsystematic risk of the firm C) Credit rating of the firm D) Tax rate in the economy	**2**	**CO1**
8	An unlevered firm has raised both debt and equity from the market. A) True B) False	**2**	**CO1**
9	Selecting the project with the highest IRR may lead to mistakes. A) True B) False	**2**	**CO1**
10	The cost of equity for the firm is directly proportion to the amount of debt raised by the firm. A) True B) False	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks A**			
11	Explain the role of finance function in an organization.	5	CO2
12	Explain the method to compute cost of equity.	5	CO2
13	Explain any two of the following theories of capital structure decisions. a) Net Income b) Net Operating Income c) Trade-off d) Pecking order.	5	CO2
14	Do you agree that capital budgeting decisions are irreversible?	5	CO2
4SECTION-C **3Qx10M=30 Marks**			
15	Compute weighted average cost of capital. Cost of equity is 18%, cost of debt is 10%, corporate tax rate is 35%, equity value is INR 750 crores and debt value is INR 150 crores.	10	CO3
16	Contrast net present value with internal rate of return. If you have to select a project using one of above-mentioned techniques of capital budgeting, which technique you will chose to take the decision. Give your rationale.	10	CO3
17	The risk free rate is 3%, beta is 1.85, and market risk premium is 7%, compute cost of capital as per CAPM.	10	CO3

SECTION-D
2Qx15M= 30 Marks

<table>
<tr><td>18</td><td>If you wish to accumulate Rs.140,000 in 13 years, how much must you deposit today in an account that pays an annual interest rate of 14%?

OR
“From the point of view of an organization financial management is related not only to fund raising but encompasses the wider perspective of managing the finances for the company efficiently”. Explain the statement.</td><td>15</td><td>CO4</td></tr>
<tr><td>19</td><td>If the following are the cash flows from a project.
<table><tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr><tr><td>ECF (INR)</td><td>480</td><td>575</td><td>620</td><td>700</td><td>730</td><td>840</td><td>900</td></tr></table>The initial investment for the project is INR 2,200. The discount rate for this project is 10%. Find the net present value of the project.</td><td>15</td><td>CO4</td></tr>
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