Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, May 2021

Course: Financial management **Semester: 2**
Program: MBA LSCM/AVM **Time 03 hrs.**
Course Code: FINC7019 **Max. Marks: 100**

SECTION A

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

S. No.	Questions	CO
Q1	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? a) 6% b) 7% c) 8% d) 9% e) 10%	CO2
Q2	Which of the following is an unsystematic risk? 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.	CO1
Q3	The capital asset pricing model (CAPM) can best be defined as: a) Slope of the SML, the difference between the expected return on a market portfolio and the risk-free rate. 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.	CO3
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. a) 71.84%	CO3

	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. b) Source of funds. c) LIBOR. d) Prime rate. e) T-bill rate.	CO1
Q6	A firm has a tax rate of 35%, an unlevered rate of return of 14%, total debt of $1,000, and an EBIT of $300.00. What is the unlevered value of the firm? a) $27 b) $393 c) $1,027 d) $1,393 e) $2,143	CO3

SECTION B

1. **Each Question will carry 10 Marks**
2. **Instruction: Write short or Brief Notes**

Q7	If you are a CFO for a company, you expect a firm with a positive NPV investment; which financial instrument would you choose to finance it with debt or equity?	CO4
Q8	a) Why do we use an after-tax figure for cost of debt but not for cost of equity? b) Explain IRR, ARR, Explicit cost and Implicit cost.	CO2
Q9	a) Why doesn't everyone just buy common stocks as investments? b) Explain the Payback Period Rule. What are the advantages/disadvantages of payback period rule	CO3
Q10	Calculate the Average Accounting return (AAR) of the project with following details (see table below) The taxes are at the rate of 25%.	CO2
Q11	Your broker calls you and tells you that he has this great investment opportunity. If you invest $100 today, you will receive $40 in one year and $75 in two years. If you require a 15% return on investments of this risk, should you take the investment? Explain the decision.	CO3

	Year1	Year2	Year3	Year4	Year5
Revenue	433,333	450,000	266,667	200,000	133,333
Expenses	200,000	150,000	100,000	100,000	100,000
Depreciation	100,000	100,000	100,000	100,000	100,000

SECTION C

1. **Each Question will carry 20 Marks**
2. **Instruction: Write long answers**

Q12	a) Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues. b) **<u>Equity Information</u>** 50 million shares $80 per share Beta = 1.15 Market risk premium = 9% Risk-free rate = 5% **<u>Debt Information</u>** $1 billion in outstanding debt (face value) Current quote = 1100 Coupon rate = 9%, semiannual coupons 15 years to maturity Tax rate is 40% Calculate: What is the cost of equity? What is the cost of debt? What is the after-tax cost of debt? What are the capital structure weights? What is the WACC?	CO4