

PMIR BFM QUIZ 3 (E) Time: 10 mins

Please (✓) against the nearest correct answer. For each correct answer you get +1 mark & for each no attempt -1 mark and for each wrong answer -1 mark. Please show some rough work (i.e., proof of your computations).

1) The current dividend on an equity share of Neha Telecom is Rs3.00. It is expected to enjoy an above-normal growth rate of 40 percent for 5 years. Thereafter, the growth rate will fall and stabilize at 12 percent. Equity investors require a return of 15 percent from the stock. What is the intrinsic value of the equity share of Neha Telecom?

- a) Rs.286
- b) Rs.292
- c) Rs.318
- d) Rs.327
- e) None of the above

2) Hemant's Company is considering a project that calls for an initial cash outlay of Rs.50,000. The expected net cash inflows from the project are Rs.7,791 for each of 10 years. What is the IRR of the project?

- a) 6 percent
- b) 7 percent
- c) 8 percent
- d) 9 percent
- e) None of the above

3) If a bond sells at a high premium, then which of the following relationships hold true? (P_0 represents the price of a bond and YTM is the bond's yield to maturity.)

- a) $P_0 < \text{par}$ and $\text{YTM} > \text{the coupon rate}$
- b) $P_0 > \text{par}$ and $\text{YTM} > \text{the coupon rate}$
- c) $P_0 > \text{par}$ and $\text{YTM} < \text{the coupon rate}$
- d) $P_0 < \text{par}$ and $\text{YTM} < \text{the coupon rate}$
- e) None of the above

4) A firm has an issue of \$1000 par value bonds with a 12 percent stated interest rate outstanding. The issue pays interest annually and has 10 years remaining to its maturity date. If bonds of similar risk are currently earning 8 percent, the firm's bond will sell for _____ today.

- a) \$1,000
- b) \$805.20
- c) \$851.50
- d) \$1,268.20
- e) None of the above

5) Combining positively correlated assets having the same expected return results in a portfolio with _____ level of expected return and _____ level of risk.

- a) a higher; a lower
- b) the same; a higher

- c) the same; a lower
- d) a lower; a higher
- e) none of the above

6) A firm is evaluating two independent projects utilizing the internal rate of return technique. Project X has an initial investment of \$80,000 and cash inflows at the end of each of the next five years of \$25,000. Project Z has a initial investment of \$120,000 and cash inflows at the end of each of the next four years of \$40,000. The firm should

- a) accept both if their cost of capital is 15% at the maximum.
- b) accept only Z if their cost of capital is 15% at the maximum.
- c) accept only X if their cost of capital is 15% at the maximum.
- d) reject both if their cost of capital is 12% at the maximum.
- e) none of the above

7) On a purely theoretical basis, the NPV is the better approach to capital budgeting due to all the following reasons EXCEPT

- a) that it measures the benefits relative to the amount invested.
- b) for the reasonableness of the reinvestment rate assumption.
- c) that there may be multiple solutions for an IRR computation.
- d) that it maximizes shareholder wealth.
- e) none of the above

8) Perfectly _____ correlated series move exactly together and have a correlation coefficient of _____, while perfectly _____ correlated series move exactly in opposite directions and have a correlation coefficient of _____.

- a) negatively; -1; positively; +1
- b) negatively; +1; positively; -1
- c) positively; -1; negatively; +1
- d) positively; +1; negatively; -1
- e) none of the above

9) The nominal rate of interest is composed of

- a) the real rate plus an inflationary expectation.
- b) the real rate plus a risk premium.
- c) the risk-free rate plus an inflationary expectation.
- d) the risk-free rate plus a risk premium.
- e) none of the above

10) A firm has interest expense of \$145,000, preferred dividends of \$25,000, and a tax rate of 40 percent. The firm's financial breakeven point is

- a) \$ 25,000.
- b) \$170,000.
- c) \$186,667.
- d) \$145,000.
- e) none of the above

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