PMIR BFM Quiz 3 (P)

Time:10 mins

Please (✓) against the nearest correct answer. For each correct answer you get +1 mark & for each wrong answer -1.

1. An investment banker has recommended a $100,000 portfolio containing assets B, D, and F. $20,000 will be invested in asset B, with a beta of 1.5; $50,000 will be invested in asset D, with a beta of 2.0; and $30,000 will be invested in asset F, with a beta of .5. The beta of the portfolio is

A. 1.25
B. 1.33
C. 1.45
D. unable to be determined from the information provided.
E. none of the above.

2. XYZ has estimated that a proposed project's 10-year annual net cash benefit, received each year end, will be Rs.2,500 with an additional terminal benefit of Rs.5,000 at the end of the tenth year. Assuming that these cash inflows satisfy exactly XYZ's required rate of return of 8 percent, calculate the initial cash outlay.

a) Rs.16,775
b) Rs.19,090
c) Rs.25,650
d) Rs.30,600
e) none of the above

3. In the capital asset pricing model, an increase in inflationary expectations will be reflected by
   a) an increase in the slope of the security market line.
   b) a decrease in the slope of the security market line.
   c) a parallel shift downward in the security market line.
   d) a parallel shift upward in the security market line.
   e) none of the above.

4. The following groups of ratios primarily measure risk.
   a) liquidity, activity, and profitability
   b) liquidity, activity, and common stock
   c) liquidity, activity, and debt
   d) activity, debt, and profitability
   e) none of the above

5. When evaluating projects using internal rate of return,
   a) projects having lower early-year cash flows tend to be preferred at higher discount rates.
   b) projects having higher early-year cash flows tend to be preferred at higher discount rates.

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c) projects having higher early-year cash flows tend to be preferred at lower discount rates.
d) the discount rate and magnitude of cash flows do not affect internal rate of return.
e) none of the above.

6. 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.

7. A firm has an outstanding issue of 1,000 shares of preferred stock with a $100 par value and an 8 percent annual dividend. The firm also has 5,000 shares of common stock outstanding. If the stock is cumulative and the board of directors has passed the preferred dividend for the prior two years, how much must the preferred stockholders be paid prior to paying dividends to common stockholders?
A. $ 8,000
B. $16,000
C. $24,000
D. $25,000
E. none of the above

8. A corporation is considering expanding operations to meet growing demand. With the capital expansion the current accounts are expected to change. Management expects cash to increase by $10,000, accounts receivable by $20,000, and inventories by $30,000. At the same time accounts payable will increase by $40,000, accruals by $30,000, and long-term debt by $80,000. The change in net working capital is
A. a decrease of $40,000.
B. a decrease of $10,000.
C. a decrease of $90,000.
D. a decrease of $60,000.
E. none of the above.

9. Generally, _____ in leverage result in _____ return and _____ risk.
A. increases, decreased, increased
B. increases, decreased, decreased
C. increases, increased, increased
D. decreases, increased, decreased
E. none of the above

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10. Firms underprice new issues of common stock for the following reason(s):
a) when the market is in equilibrium, additional demand for shares can be achieved only at a lower price.
b) when additional shares are issued, each shares percent of ownership in the firm is diluted, thereby justifying a lower share value.
c) many investors view the issuance of additional shares as a signal that management is using common stock equity financing because it believes that the shares are currently overpriced.
d) all of the above.
e) none of the above.

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