PMIR BFM Quiz 3 (F)

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. Mugwump Industries has issued a bond which has a $1,000 par value and a 15 percent annual coupon interest rate. The bond will mature in ten years and currently sells for $1,250. Using the approximation formula to calculate the yield to maturity (YTM) of this bond results in a YTM of
   a)11.11 percent.
   b) 15.00 percent.
   c) 27.78 percent.
   d) 42.22 percent.
   e) None of the above

2. MNO 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 MNO'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. Ajanta airlines paid Rs.4 as dividend last year on its equity shares, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?
   a) 9.0 percent
   b) 9.2 percent
   c) 9.4 percent
   d) 9.6 percent
   e) None of the above

4.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

5. If capital is to be rationed for only the current period, a firm should probably first consider selecting projects by descending order of ____.

a) net present value

b) payback period

c) internal rate of return

d) profitability index

e) None of the above

6.The three summary ratios basic to the DuPont system of analysis are

a) net profit margin, total asset turnover, and return on investment.

b) net profit margin, total asset turnover, and return on equity.

c) net profit margin, total asset turnover, and equity multiplier.

d) net profit margin, financial leverage multiplier, and return on equity.

e) none of the above

7.The investment banker does all of the following EXCEPT

a) make long-term investments for banking institutions.

b) bear the risk of selling a security issue.

c) act as a middleman between the issuer and buyer of a new security.

d) advise clients

e) none of the above

8. A firm has a beta of 1.2. The market return equals 14 percent and the risk-free rate of return equals 6 percent. The estimated cost of common stock equity is

a) 6 percent.

b) 7.2 percent.

c) 14 percent.

d) 15.6 percent.

e) none of the above

9.A firm has fixed operating costs of $650,000, a sales price per unit of $20, and a variable cost per unit of $13. At a base sales level of 500,000 units, the firm's degree of operating leverage is ______.

a) 1.07

b) 1.11

c) 1.18

d) 1.23

e) none of the above

10. You are considering two mutually exclusive investment proposals, project A and project B. B's expected value of net present value is $1,000 less than that for A and A has less dispersion. On the basis of risk and return, you would say that

a) Project A dominates project B.

b) Project B dominates project A.

c) Project A is more risky and should offer greater expected value.

d) Each project is high on one variable, so the two are basically equal.

e) None of the above