

*MGT201 – Financial Management
Golden File*

For: Final Term Exam Preparation

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Quality of our File:

- All the papers are included in this file.
- 99% file is verified, but you also should read and verify.
- Repetitive MCQs are removed.
- Surely more than 90% MCQs in the exam are from this file. Sometime 99% MCQs.
- Extra lines, like Question #, and other things are also removed. The file is neat and clean. Just Question and their answers are included.
- The numbers of pages are very short.
- Just read this file, you will find very helpful during the exam.

What are the earnings per share (EPS) for a company that earned Rs.100, 000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

- ▶ Rs.1.00
- ▶ Rs. 6.00
- ▶ **Rs. 0.50**
- ▶ Rs. 6.50

Who determines the market price of a share of common stock?

- ▶ **Individuals buying and selling the stock**
- ▶ The board of directors of the firm

- ▶ The stock exchange on which the stock is listed
- ▶ The president of the company

Which of the following statements is correct for a sole proprietorship?

- ▶ The sole proprietor has limited liability
- ▶ The sole proprietor can easily dispose of their ownership position relative to a shareholder in a corporation
- ▶ **The sole proprietorship can be created more quickly than a corporation**
- ▶ The owner of a sole proprietorship faces double taxation unlike the partners in a partnership

Which of the following market refers to the market for relatively long-term financial instruments?

- ▶ Secondary market
- ▶ Primary market
- ▶ Money market
- ▶ **Capital market**

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: ROE = _____.

- ▶ **Net profit margin × Total asset turnover × Equity multiplier**
- ▶ Total asset turnover × Gross profit margin × Debt ratio
- ▶ Total asset turnover × Net profit margin
- ▶ Total asset turnover × Gross profit margin × Equity multiplier

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

- ▶ **Its corresponding base year balance sheet item; its corresponding base year income statement item**
- ▶ Its corresponding base year income statement item; its corresponding base year balance sheet item
- ▶ Net sales or revenues; total assets
- ▶ Total assets; net sales or revenues

Which group of ratios shows the extent to which the firm is financed with debt?

- ▶ Liquidity ratios
- ▶ **Debt ratios**
- ▶ Coverage ratios
- ▶ Profitability ratios

Which of the following would be considered a cash-flow item from an "operating activity"?

- ▶ **Cash outflow to the government for taxes**
- ▶ Cash outflow to shareholders as dividends
- ▶ Cash inflow to the firm from selling new common equity shares
- ▶ Cash outflow to purchase bonds issued by another company

An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ **More than**
- ▶ Equal to
- ▶ Can not be found

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- ▶ Payback period
- ▶ **Internal rate of return**
- ▶ Net present value
- ▶ Profitability index

If the cash flow stream for a project is NOT a uniform series of inflows and initial outflow occur at time 0. 15% discount rate produces a resulting present value of Rs. 104,000 that is greater than the initial cash outflow of Rs. 100,000. Now if we want to calculate the best discount rate:

- ▶ **We need to try a higher discount rate**
- ▶ We need to try a lower discount rate
- ▶ 15% is the best discount rate
- ▶ Interpolation is not required here

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars
- ▶ **In terms of Percentages**
- ▶ Intuitively
- ▶ Logically

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- ▶ **All of the given options**

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ **Choose all projects with a positive NPV**
- ▶ Group projects together to allocate the funds available and select the group of projects with the highest NPV
- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ **Profitability index (PI)**
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)

- ▶ Payback period (PBP)

Due to timing difference problem, a good project might suffer from _____ IRR even though its NPV is _____.

- ▶ Higher; Lower
- ▶ Lower; Lower
- ▶ **Lower; Higher**
- ▶ Higher; Higher

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

- ▶ Long-term debt
- ▶ **Preferred stock**
- ▶ Common stock
- ▶ None of the given option

Market price of the bond changes according to which of the following reasons?

- ▶ Market price changes due to the supply –demand of the bond in the market
- ▶ Market price changes due to Investor's perception
- ▶ Market price changes due to change in the interest rate
- ▶ **All of the given options**

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option
- ▶ **Call provision**
- ▶ Put option

The value of a bond is directly derived from which of the following?

- ▶ Cash flows
- ▶ Coupon receipts
- ▶ Par recovery at maturity
- ▶ **All of the given options**

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

- ▶ Intrinsic value
- ▶ Book value
- ▶ **Par value**
- ▶ Historic cost

What is yield to maturity on a bond?

▶ It is below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

▶ **The discount rate that will set the present value of the payments equal to the bond price**

- ▶ It is based on the assumption that any payments received are reinvested at the coupon rate
- ▶ None of the given options

Consider a 5-year bond with a 10% coupon that has a present yield to maturity of 8%. If interest rates remain constant, one year from now, what will be the price of this bond?

- ▶ Higher
- ▶ **Lower**
- ▶ The same
- ▶ Rs. 1,000

If all things equal, when diversification is most effective?

- ▶ Securities' returns are positively correlated
- ▶ Securities' returns are uncorrelated
- ▶ Securities' returns are high
- ▶ **Securities' returns are negatively correlated**

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

- ▶ Par value
- ▶ **Market value**
- ▶ Intrinsic value
- ▶ Face value

Which of the following has NO effect when the financial health (cash flows and income) of the company changes with time?

- ▶ Market value
- ▶ Price of the share
- ▶ **Par value**
- ▶ None of the given options

The value of dividend is derived from which of the following?

- ▶ **Cash flow streams**
- ▶ Capital gain /loss
- ▶ Difference between buying & selling price
- ▶ All of the given options

You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X:

- ▶ Will be greater than the intrinsic value of stock Y
- ▶ Will be the same as the intrinsic value of stock Y
- ▶ **Will be less than the intrinsic value of stock Y**
- ▶ Cannot be calculated without knowing the market rate of return

Total portfolio risk is _____.

- ▶ Equal to systematic risk plus non-diversifiable risk
- ▶ Equal to avoidable risk plus diversifiable risk
- ▶ Equal to systematic risk plus unavoidable risk
- ▶ **Equal to systematic risk plus diversifiable risk**

The wider the range of possible outcomes i.e. _____.

▶ **The greater the variability in potential Returns that can occur, the greater the Risk**

- ▶ The greater the variability in potential Returns that can occur, the lesser the Risk
- ▶ The greater the variability in potential Returns that can occur, the level of risk remain constant

▶ None of the given options

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

Which of the following statements regarding covariance is CORRECT?

- ▶ Covariance always lies in the range -1 to +1
- ▶ Covariance, because it involves a squared value, must always be a positive number (or zero)
- ▶ Low covariances among returns for different securities leads to high portfolio risk
- ▶ **Covariances can take on positive, negative, or zero values**

Which of the following is NOT a major cause of systematic risk.

- ▶ A worldwide recession
- ▶ A world war
- ▶ World energy supply
- ▶ **Company management change**

Finance consists of three interrelated areas:

- ▶ Money and capital market
- ▶ Investment
- ▶ Financial management
- ▶ **All of the given options**

At the termination of the project we need to take into account:

- ▶ **Salvage value**
- ▶ Book value
- ▶ Intrinsic value
- ▶ Fair value

In which of the following approach you need to bring all the projects to the same length in time?

- ▶ MIRR approach

- ▶ Going concern approach
- ▶ **Common life approach**
- ▶ Equivalent annual approach

Assume a company had Rs.1 billion in free cash flow last year, and it is expected to grow that cash flow at 3% into perpetuity. Assuming a 9% cost of equity, what is the present value of the company?

- ▶ **Rs.12.08 billion**
- ▶ Rs.18.15 billion
- ▶ Rs.14.16 billion
- ▶ Rs.16.67 billion

What is the most important criteria in capital budgeting?

- ▶ Profitability index
- ▶ **Net present value**
- ▶ Pay back period
- ▶ Return on investment

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ **Shareholder; manager**
- ▶ Manager; owner
- ▶ Accountant; bondholder
- ▶ Shareholder; bondholder

What should be the focal point of financial management in a firm?

- ▶ The number and types of products or services provided by the firm
- ▶ The minimization of the amount of taxes paid by the firm
- ▶ **The creation of value for shareholders**
- ▶ The dollars profits earned by the firm

Which of the following financial market is referred to the market for short-term government and corporate debt securities?

- ▶ **Money market**
- ▶ Capital market
- ▶ Primary market
- ▶ Secondary market

Which of the following would generally have unlimited liability?

- ▶ A limited partner in a partnership
- ▶ A shareholder in a corporation
- ▶ **The owner of a sole proprietorship**
- ▶ A member in a limited liability company (LLC)

Which of the following is a major disadvantage of the corporate form of organization?

- ▶ **Double taxation of dividends**
- ▶ Inability of the firm to raise large sums of additional

- ▶ Limited liability of shareholders
- ▶ Limited life of the corporate form

Which of the following statement is most accurate?

- ▶ Coverage ratios also shed light on the "liquidity" of current ratios
- ▶ **Receivable- and inventory-based activity ratios also shed light on the "liquidity" of current assets**
- ▶ Receivable- and inventory-based activity ratios also shed light on the firm's use of financial leverage
- ▶ Liquidity ratios also shed light on the firm's use of financial leverage

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

- ▶ Incomplete information
- ▶ Fall
- ▶ **Rise**
- ▶ Remain unchanged

You are going to invest Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?

- ▶ Rs.14,491
- ▶ Rs.14,518
- ▶ Incomplete information
- ▶ **Rs.14,460**

Rationale:

30months = 2.5 year

$FV = amt * (1+i)^n = 12500(1.06)^{2.5} = 14460$

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ **A cash outflow to repurchase the firm's own common stock**
- ▶ A cash outflow to lenders as interest
- ▶ A cash outflow to purchase bonds issued by another company

In estimating "after-tax incremental operating cash flows" for a project, you should include all of the following EXCEPT _____.

- ▶ Changes in costs due to a general appreciation in those costs
- ▶ The amount (net of taxes) that we could realize from selling a currently unused building of ours that we intend to use for our project
- ▶ Changes in working capital resulting from the project, net of spontaneous changes in current liabilities
- ▶ **Costs that have previously been incurred that are unrecoverable**

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

- ▶ Include sunk costs, but ignore opportunity costs
- ▶ **Include opportunity costs, but ignore sunk costs**
- ▶ Ignore both opportunity costs and sunk costs
- ▶ Include both opportunity and sunk costs

Interest payments, principal payments, and cash dividends are _____ the typical budgeting cash-flow analysis because they are _____ cash flows.

- ▶ Included in; financing
- ▶ **Excluded from; financing**
- ▶ Included in; operating
- ▶ Excluded from; operating

Why Payback period is a poor gauge of profitability?

- ▶ It ignores the time value of money
- ▶ It gives rough indication to the liquidity of the project
- ▶ It does not consider cash flows after expiration of the payback period
- ▶ **All of the given options**

To estimate an unknown number that lies between two known numbers is known as _____.

- ▶ Capital rationing
- ▶ Capital budgeting
- ▶ **Interpolation**
- ▶ Amortization

In the mathematical subfield of numerical analysis, interpolation is a method of constructing new data points within the range of a discrete set of known data points.

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- ▶ **All of the given options**

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ Choose all projects with a positive NPV
- ▶ **Group projects together to allocate the funds available and select the group of projects with the highest NPV**
- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

The sinking fund retirement of a bond issue takes _____.

- ▶ Only one form -- the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee
- ▶ Only one form -- the corporation pays cash to the trustee, who in turn calls the bonds for redemption
- ▶ Only one form -- bonds mature periodically and the corporation retires them in the order that they mature

▶ Two forms -- (1) the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee; or (2) the corporation pays cash to the trustee, who in turn calls the bonds for redemption

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

▶ Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date

- ▶ Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity
- ▶ Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity
- ▶ None of the above are correct since a serial bond is identical to a sinking fund bond

Which of the following is NOT the present value of the bond?

- ▶ Intrinsic value
- ▶ Market price
- ▶ Fair price
- ▶ Theoretical price

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

- ▶ 10.65%
- ▶ 10.45%
- ▶ 10.95%
- ▶ 10.52%

In this we have to first calculate the price of bond first

$$=100*(1 + 0.12)^{-1}+100*(1 + 0.12)^{-2}+100*(1 + 0.12)^{-3}+1100*(1.12)^{-4} = 939.25$$

Current yield = coupon amount /Price of bond

$$100/939.25 =$$

So coupon payment for 4 year @ 10% = $100*4 = 400$

Plug the values in Current yield formula = $400/1000 = .1064 = 10.64\%$

A coupon bond that pays interest annually is selling at par value of Rs.1,000, matures in 5 years, and has a coupon rate of 9%. What is the yield to maturity on this bond?

- ▶ 8.0%
- ▶ 8.3%
- ▶ 9.0%
- ▶ 10.0%

Rationale: When a bond sells at par value, the coupon rate is equal to the yield to maturity

Low Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends.

- ▶ 6.0%

- ▶ 4.8%
- ▶ 7.2%
- ▶ 3.0%

Growth = ROE * plow back ratio

Plowback ratio ratio that measures the amount of earnings retained after dividends have been paid out (100%-40% = 60%)

Let us plug in the value into above formula

$$10\% * .60 = 6\%$$

How dividend yield on a stock is similar to the current yield on a bond?

- ▶ Both represent how much each security's price will increase in a year
- ▶ **Both represent the security's annual income divided by its price**
- ▶ Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- ▶ Both incorporate the par value in their calculation

The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as _____.

- ▶ A probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ **Coefficient of variation**

A well-diversified portfolio is defined as:

- ▶ **One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero**
- ▶ One that contains securities from at least three different industry sectors
- ▶ A portfolio whose factor beta equals 1.0
- ▶ A portfolio that is equally weighted

If a company intends to start a new project, _____ technique are employed to assess the financial viability of the project.

- ▶ Financial planning
- ▶ Financial forecasting
- ▶ **Capital budgeting**
- ▶ Capital rationing

from handouts

if a company intends to start a new project, Capital Budgeting techniques are employed to assess the financial viability of the project.

Capital budgeting is a decentralized function assigned to:

- ▶ Individuals
- ▶ Departments
- ▶ Teams
- ▶ **All of the given options**

Question is bit ambiguous, if we take Dept. correct option, then “team” option is violated.

from handouts

Capital budgeting is a decentralized function. In big corporations, this function is not an individual’s job, rather, different departments and teams are assigned to work on different aspects of capital budgeting.

The biggest challenge in capital budgeting is to keep finding:

- ▶ Valuable projects
- ▶ Sources of funds
- ▶ Blue chips
- ▶ Fixed assets

The objective of financial management is to maximize _____ wealth.

- ▶ Stakeholders
- ▶ Shareholders
- ▶ Bondholders
- ▶ Directors

Information that goes into _____ can be used to prepare _____.

- ▶ A forecast balance sheet; a forecast income statement
- ▶ Forecast financial statements; a cash budget
- ▶ Cash budget; forecast financial statements
- ▶ A forecast income statement; a cash budget

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ Project A & B

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

- ▶ Rs.680.58
- ▶ Rs.1,462.23
- ▶ Rs.322.69
- ▶ Rs.401.98

$$PV = \text{amt} / (1+i)^n$$
$$PV = 1000 / (1+.08)^5 = 680.53$$

What is the present value of Rs.6,500 to be paid at the end of 8 years if the interest rate is 10% compounded annually?

▶ **Rs.3,032**

▶ Rs.3,890

▶ Rs.3,190

▶ Rs.4,301

$$PV = \text{amt} / (1+i)^n$$

$$PV = 6500 / (1+.10)^8 = 3032.29$$

Which of the following is equal to the average tax rate?

▶ **Total tax liability divided by taxable income**

▶ Rate that will be paid on the next dollar of taxable income

▶ Median marginal tax rate

▶ Percentage increase in taxable income from the previous period

Which of the following would be deductible as an expense on the corporation's income statement?

▶ **Interest paid on outstanding bonds**

▶ Cash dividends paid on outstanding common stock

▶ Cash dividends paid on outstanding preferred stock

▶ All of the given options

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

▶ **Its corresponding base year balance sheet item; its corresponding base year income statement item**

▶ Its corresponding base year income statement item; its corresponding base year balance sheet item

▶ Net sales or revenues; total assets

▶ Total assets; net sales or revenues

Which group of ratios measures a firm's ability to meet short-term obligations?

▶ **Liquidity ratios**

▶ Debt ratios

▶ Coverage ratios

▶ Profitability ratios

Interest paid on the original principal borrowed is often referred to as _____.

▶ Compound interest

▶ Present value

▶ **Simple interest**

▶ Future value

If the following are the balance sheet changes, which one of them would represent use of funds by a company?

▶ Rs. 8,950 decrease in net fixed assets

- ▶ Rs. 5,005 decrease in accounts receivable
- ▶ Rs. 10,001 increase in accounts payable
- ▶ **Rs. 12,012 decrease in notes payable**

In preparing a forecast balance sheet, it is likely that either cash or _____ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

- ▶ Retained earnings
- ▶ Accounts receivable
- ▶ Shareholders' equity
- ▶ **Notes payable (short-term borrowings)**

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

- ▶ **Rs.5,850**
- ▶ Rs.4,872
- ▶ Rs.6,725
- ▶ Rs.1,842

$$PV = 8000 / (1 + 0.11)^3$$

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

The benefit we expect from a project is expressed in terms of:

- ▶ **Cash in flows**
- ▶ Cash out flows
- ▶ Cash flows
- ▶ None of the given options

If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ▶ Interpolation
- ▶ **Dividing 100,000 by 36,000**
- ▶ Dividing 36,000 by 100,000
- ▶ Insufficient information

If the cash-flow stream is a uniform series of inflows (an annuity) and the initial outflow occurs at time 0, there is no need for a trial and error approach. We simply divide the initial cash outflow by the periodic receipt and search for the nearest discount factor in a table of present value interest factors of an annuity (PVIFAs).

In which of the following situations you can expect multiple answers of IRR?

- ▶ More than one sign change taking place in cash flow diagram
- ▶ There are two adjacent arrows one of them is downward pointing & the other one is upward pointing

- ▶ During the life of project if you have any net cash outflow
- ▶ **All of the given options**

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ **Modified internal rate of return**
- ▶ Net present value

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Which one of the following is NOT the disadvantage of the asset with very short life?

- ▶ Money has to be reinvested in some other project with uncertain NPV
- ▶ Money has to be reinvested in some other project with certain NPV
- ▶ Money has to be reinvested in some other project with return so risky
- ▶ **None of the given options**

When a bond will sell at a discount?

- ▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ▶ The coupon rate is greater than yield to maturity
- ▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ▶ **The coupon rate is less than the current yield and the current yield is less than yield to maturity**

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

- ▶ **Equal to zero**
- ▶ Greater than zero
- ▶ Equal to the sum of the securities' standard deviations
- ▶ Equal to -1

How efficient portfolios of "N" risky securities are formed?

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ **They have the highest rates of return for a given level of risk**

Which of the following is NOT an example of hybrid equity?

- ▶ Convertible bonds
- ▶ Convertible debenture
- ▶ **Common shares**
- ▶ Preferred shares

The market capitalization rate on the stock of Fast Growing Company is 20%. The expected ROE is 22% and the expected EPS is Rs. 6.10. If the firm's plowback ratio is 90%, the P/E ratio will be _____.

- ▶ 8.33
- ▶ **50.0**
- ▶ 9.09
- ▶ 7.69

market capitalization rate A rate of return on investment based on the expected income.

P/E The most common measure of how expensive a stock is. The P/E ratio is equal to a stock's market capitalization divided by its after-tax earnings

$K = \text{Capitalization Rate} = 20\%$

Price over earning ratio:

Here is formula for {P/E}

$P/E = (1-b) / K-G$

G = growth Rate

where $G = ROE * b$

b = plow back ratio. Or retained earning (money which is reinvested in company)

$g = ROE * b = .22 * .9 = .198$

by plugging the values in p/e formula

$(1 - .9) / (.20 - .198) = 50$

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

- ▶ An anticipated earnings growth rate which is less than that of the average firm
- ▶ **A dividend yield which is less than that of the average firm**
- ▶ Less predictable earnings growth than that of the average firm
- ▶ Greater cyclical growth of earnings than that of the average firm

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

- ▶ **%**
- ▶ Times
- ▶ Number of days

- ▶ All of the given options

Which of the following is NOT a major cause of unsystematic risk.

- ▶ New competitors
- ▶ New product management
- ▶ **Worldwide inflation**
- ▶ Strikes

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

- ▶ Project A dominates project B
- ▶ Project B dominates project A
- ▶ **Neither project dominates the other in terms of risk and return**
- ▶ Incomplete information

Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ **All of the given options**

Which of the following need to be excluded while we calculate the incremental cash flows?

- ▶ Depreciation
- ▶ **Sunk cost**
- ▶ Opportunity cost
- ▶ Non-cash item

An initial investment of Rs. 200,000 is required to start the business; Rs. 9,000 per month is expected to be earned for the first year and Rs. 20,000 would be earned every month in the second year. How many months will it take to recover your initial investment?

- ▶ 14 months
- ▶ **16 months**
- ▶ 18 months
- ▶ 20 months

“Don't put all eggs in one basket” explains _____ concept of finance.

- ▶ Time value of money
- ▶ Risk and Return
- ▶ Discounting and NPV
- ▶ **Portfolio Diversification**

_____ is equal to risk per unit return.

- ▶ Standard Deviation
- ▶ Variance

- ▶ **Coefficient of Variation**
- ▶ None of the given options

A bond that pays no annual interest but is sold at a discount below the par value is called:

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond
- ▶ **A zero coupon bond**

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

- ▶ A zero growth common stock
- ▶ A positive growth common stock
- ▶ **A short-term bond**
- ▶ An option

An unincorporated business owned by one individual is called _____.

- ▶ Partnership
- ▶ Company
- ▶ **Sole proprietorship**
- ▶ None of given options

_____ is a ratio of the present value of future cash flows to the initial investment.

- ▶ Return on Investment
- ▶ NPV
- ▶ Payback Period
- ▶ **Profitability Index**

_____ is the actual price at which share is bought or sold.

- ▶ Fair price
- ▶ Par value
- ▶ **Market price**
- ▶ Written down value

_____ ratio gives an indication how equity investors regard the company's value.

- ▶ Price / Earning
- ▶ **Market / Book**
- ▶ Earning / Share
- ▶ Price / Cash flow

In the formula $r_{CE} = (D1V1/P_0) + g$, what does $(D1V1/P_0)$ represent?

- ▶ **The expected dividend yield from a common stock**
- ▶ The expected price appreciation yield from a common stock
- ▶ The dividend yield from a preferred stock
- ▶ The interest payment from a bond

For a given nominal interest rate, the more numerous the compounding periods, the less the effective annual interest rate.

- ▶ True
- ▶ **False**

The current ratio is never larger than the quick ratio.

- ▶ True
- ▶ **False**

When interest rates go up, the market price of a bond goes up.

- ▶ True
- ▶ **False**

Maximizing the price of a share of the firm's common stock is the equivalent of maximizing the wealth of the firm's present owners.

- ▶ **True**
- ▶ False

You can reduce systematic risk by adding more common stocks to your portfolio.

- ▶ True
- ▶ **False**

Assume that one year from now, you will deposit Rs. 1,000 into a saving account that pays 8% interest. If the bank compounds interest semi-annually, how much will you have in your account four years from now?

$$FV = PV(1+i/m)^{mn}$$

$$FV = 1000 (1.04)^6 \quad (m*n = 2*3 \text{ as we are depositing after one year so total years will be 3})$$

$$FV = 1265$$

How much should you pay for the preferred stock of the PST Corporation, if it has \$ 50 par value, pays \$20 a share in annual dividends, and your required rate of return is 15%.

$$=20/.15 = 133.33$$

Why companies invest in projects with negative NPV?

- ▶ **Because there is hidden value in each project**
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ **One; one**
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

- ▶ **Probability distribution**
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

The present value of growth opportunities (PVGO) is equal to

- I) The difference between a stock's price and its no-growth value per share
 - II) The stock's price
 - III) Zero if its return on equity equals the discount rate
 - IV) The net present value of favorable investment opportunities
- ▶ I and IV
 - ▶ **II and IV**
 - ▶ I, III, and IV
 - ▶ II, III, and IV

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- ▶ The firm can increase market price and P/E by retaining more earnings
- ▶ The firm can increase market price and P/E by increasing the growth rate
- ▶ **The amount of earnings retained by the firm does not affect market price or the P/E**
- ▶ None of the given options

Which of the following would tend to reduce a firm's P/E ratio?

- ▶ The firm significantly decreases financial leverage
- ▶ The firm increases return on equity for the long term
- ▶ **The level of inflation is expected to increase to double digit levels**
- ▶ The rate of return on Treasury bills decreases

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- ▶ Real-risk rate
- ▶ Risk premium for stocks
- ▶ **Return on assets**
- ▶ Expected inflation

- ▶ Interest rate risk
- ▶ **All of the given options**

Bond is a type of Direct Claim Security whose value is NOT secured by _____.

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

- ▶ **A subordinated debenture**
- ▶ A debenture
- ▶ A junk bond
- ▶ An income bond

A 12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?

- ▶ Rs. 87
- ▶ **Rs. 90**
- ▶ Rs. 102
- ▶ Rs. 112

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- ▶ **Indenture**
- ▶ Debenture
- ▶ Bond
- ▶ Bond trustee

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- ▶ **Life span of the project**
- ▶ Validity of the project
- ▶ Cost of the capital
- ▶ Return on asset

Which of the following technique would be used for a project that has non-normal cash flows?

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ **Modified internal rate of return**
- ▶ Net present value

Why net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ **Because it has direct link with shareholders wealth maximization**

- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- ▶ Cash flow from financing activity
- ▶ Cash flow from operating activity
- ▶ Cash flow from investing activity
- ▶ **All of the given options**

An investment proposal should be judged in whether or not it provides:

- ▶ A return equal to the return require by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

- ▶ Rs.253 million
- ▶ **Rs.323 million**
- ▶ Rs.380 million
- ▶ Rs.180 million

An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ **More than**
- ▶ Equal to
- ▶ Can not be found

What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

- ▶ Rs.1000
- ▶ Rs.702.40
- ▶ **Rs.545.45**
- ▶ Rs.13,816

Which group of ratios relates profits to sales and investment?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

Which of the following statements is the least likely to be correct?

▶ A firm that has a high degree of business risk is less likely to want to incur financial risk

▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**

- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Which of the following statement (in general) is correct?

- ▶ A low receivables turnover is desirable
- ▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**
- ▶ An increase in net profit margin with no change in sales or assets means a weaker ROI

- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

In finance we refer to the market where existing securities are bought and sold as the _____ market.

- ▶ Money
- ▶ Capital
- ▶ Primary
- ▶ **Secondary**

Which of the following would NOT improve the current ratio?

- ▶ **Borrow short term to finance additional fixed assets**
- ▶ Issue long-term debt to buy inventory
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

What will be the approximate future value of a RS. 20,000 initial investment at 8% continuous compound interest rate for 20 year?

- ▶ Rs.52,000
- ▶ Rs.93,219
- ▶ **Rs.99,061**
- ▶ Rs.915,240

Which of the following is NOT a cash outflow for the firm?

- ▶ **Depreciation**
- ▶ Dividends
- ▶ Interest
- ▶ Taxes

Who is responsible for the decisions relating capital budgeting and capital rationing?

- ▶ Chief executive officer
- ▶ Junior management
- ▶ Division heads
- ▶ **All of the given option**

MIRR (discount rate) equates which of the following?

- ▶ **Future value of cash inflows to the present value of cash outflows**
- ▶ Future value of cash flows to the present value of cash flows
- ▶ Future value of all cash flows to zero
- ▶ Present value of all cash flows to zero

_____ is equal to (common shareholders' equity/common shares outstanding).

- ▶ **Book value per share**
- ▶ Liquidation value per share
- ▶ Market value per share
- ▶ None of the above

Diversification can reduce risk by spreading your money across many different

- ▶ Investments
- ▶ Markets
- ▶ Industries
- ▶ **All of the given options**

Which of the following can be described as highly competitive market where goods business ideas are taken up immediately?

- ▶ Capital Market
- ▶ **Efficient market**
- ▶ Perfect market
- ▶ Imperfect Market

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

- ▶ IRR
- ▶ **MIRR**
- ▶ PV
- ▶ NPV

A preferred stock will pay a dividend of Rs. 2.75 in upcoming year, and every year thereafter, i.e, dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

- ▶ Rs. 0.275
- ▶ **Rs. 27.50**
- ▶ Rs. 31.82
- ▶ Rs. 56.25

If the probability is written on Y-axis and the rate of return is mentioned on the X-axis, Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

- ▶ Indirect relationship
- ▶ No relationship
- ▶ **Direct relationship**
- ▶ Insufficient information

When a company invests in _____, they increase the economic value added and market value added.

- ▶ **Projects with positive NPV**
- ▶ Projects with negative NPV
- ▶ Any project
- ▶ Large projects only

Which of the following is not an example of physical asset market?

- ▶ Gold market
- ▶ Computer hardware
- ▶ **Insurance Companies**
- ▶ Sports industry

All of the following are example of annuity EXCEPT:

- ▶ Mortgage payment
- ▶ **Insurance premium**
- ▶ Monthly rental payments
- ▶ Fixed coupon payments

One way to increase the shareholder's wealth is to _____.

- ▶ **Increase the stock price**
- ▶ Improve goodwill
- ▶ Increase amount of debt
- ▶ Increase fixed assets

The method in which we discount all the outflows to the present and compounded all inflows to the termination date is called as:

- ▶ Internal rate of return
- ▶ Multiple internal rate of return
- ▶ **Modified internal rate of return**
- ▶ Net present value

The formula which is used for the calculation of equivalent annual annuity is:

- ▶ $(1+i)^n + 1 / (1+i)^n$
- ▶ $(1+i)^{n-1} / (1+i)^n$
- ▶ $(1+i)^n \times (1+i)^n - 1$
- ▶ **$(1+i)^n / (1+i)^n - 1$**

A bond is easily convertible to stock is called:

▶ **Junk bond**

- ▶ Euro bond
- ▶ Mortgage bond
- ▶ Convertible bonds

If share value in the market in Rs. 10 and intrinsic value is Rs. 11 then its worth is _____ to you.

▶ **More**

- ▶ Less
- ▶ Equal
- ▶ Useless information

Which of the following statement is correct in case when dividend of a stock is expected to grow at a constant rate of 5% p.a.?

- ▶ The expected return on the stock is 5% a year.
- ▶ The stock's dividend yield is 5%.
- ▶ The stock's required return must be equal to or less than 5%.

▶ **The stock's price one year from now is expected to be 5% above the current price**

Portfolio risk can be defined as:

- ▶ Overall risk of entire collection of investments
- ▶ **Risk of particular investment as compare to other investment**
- ▶ Risk of political instability within country
- ▶ Risk of bankruptcy of company making investment

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1, 500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

- ▶ **Rs.700 Rs.500 Rs.300**
- ▶ Rs.300 Rs.500 Rs.700
- ▶ Rs.500 Rs.500 Rs.500
- ▶ Any of the above, since they each sum to Rs.1,500

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.

- ▶ Present value
- ▶ Simple interest
- ▶ Future value
- ▶ **Compound interest**

All of the following influence capital budgeting cash flows EXCEPT _____.

- ▶ Choice of depreciation method for tax purposes
- ▶ Economic length of the project
- ▶ Projected sales (revenues) for the project
- ▶ **Sunk costs of the project**

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

- ▶ Cash budgeting
- ▶ Capital budgeting
- ▶ **Capital rationing**
- ▶ Capital expenditure

Who is responsible for the decisions relating capital budgeting and capital rationing?

- ▶ Chief executive officer
- ▶ Junior management
- ▶ Division heads
- ▶ **All of the given option**

When coupon bonds are issued, they are typically sold at which of the following value?

- ▶ Below par
- ▶ Above par value
- ▶ **At or near par value**
- ▶ At a value unrelated to par

When Investors want high plowback ratios?

- ▶ **Whenever $ROE > k$**
- ▶ Whenever $k > ROE$
- ▶ Only when they are in low tax brackets
- ▶ Whenever bank interest rates are high

Which of the following statement about portfolio statistics is CORRECT?

- ▶ **A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**
- ▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- ▶ The square root of a portfolio's standard deviation of return equals its variance.
- ▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Under which concept it is said that “do not put all your eggs in one basket”?

- ▶ Risk & return
- ▶ **Portfolio diversification**
- ▶ Insurance management
- ▶ Time value of money

All of the following are the steps involved in financial planning process EXCEPT:

- ▶ Assumptions are made about future levels of sales, costs, and interest rates etc.
- ▶ Ratios are projected and analyzed
- ▶ **Projected financial statements are developed**
- ▶ Comparison with key competitors about the prices to be charged

Which of the following is NOT the interest rate used for discounting calculation?

- ▶ **Benchmark interest rate**
- ▶ Effective interest rate
- ▶ Periodic interest rate
- ▶ Nominal interest rate

Suppose you are going to sale an old asset and its market value is greater than its book value it indicates that:

- ▶ **Company is going to have capital gain**
- ▶ Company will have to bear capital loss
- ▶ Company is going to earn operating revenue
- ▶ Company has to bear revenue expense

Which of the following is not a type of problem in capital rationing?

- ▶ Size difference of projects
- ▶ Timing difference of projects
- ▶ Different lives of different projects
- ▶ **Different cash flow streams**

In Pakistan which of the following is assigned to bond rating and risk?

- ▶ IMF
- ▶ Moody's
- ▶ Standard & poor
- ▶ **PACRA**

Which of the following statement defines the following events i.e Inflation, recession, and high interest rates?

- ▶ **Systematic risk factors that can be diversified away**
- ▶ Company-specific risk factors that can be diversified away
- ▶ **Among the factors that are responsible for market risk (Doubt)**
- ▶ Irrelevant except to governmental authorities like the Federal Reserve

A capital budgeting technique that is NOT considered as discounted cash flow method is:

- ▶ **Payback period**
- ▶ Internal rate of return
- ▶ Net present value
- ▶ Profitability index

Which of the following is designated by the individual investor's optimal portfolio?

- ▶ The point of tangency with the opportunity set and the capital allocation line

▶ **The point of highest reward to variability ratio in the opportunity set**

▶ The point of tangency with the indifference curve and the capital allocation line (Doubt)

▶ The point of the highest reward to variability ratio in the indifference curve

Which of the following is NOT an example of a financial intermediary?

▶ Wisconsin S&L, a savings and loan association

▶ Strong Capital Appreciation, a mutual fund

▶ **Microsoft Corporation, a software firm**

▶ College Credit, a credit union

A preferred stock will pay a dividend of Rs. 3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

▶ Rs. 0.39

▶ Rs. 0.56

▶ **Rs. 31.82**

▶ Rs. 56.25

“Do not compare apples with oranges” is the concept in:

▶ **Discounting and Net present value**

▶ Risk & return

▶ Insurance management

▶ Time value of money

Which of the following is the formula to calculate the future value of perpetuity?

▶ Constant cash flows \times interest rate

▶ **Constant cash flows / interest rate**

▶ Constant cash flows + Constant cash flows \times interest rate

▶ Constant cash flows - Constant cash flows / interest rate

Which of the following interest rate keeps on moving and changing on daily basis?

▶ Book value

▶ **Market value**

▶ Salvage value

▶ Face value

From which of the following formula we can calculate coupon rate?

▶ Coupon receipt / market value

▶ Coupon receipt / present value

▶ Coupon receipt / salvage value

▶ **Coupon receipt / book value**

Value of “g” in the formula of constant growth rate can be calculated from which of the following formula?

▶ **$g = \text{plowback ratio} \times \text{ROE}$**

▶ $g = \text{plowback ratio} \times \text{ROA}$

- ▶ $g = \text{payout ratio} + \text{ROE}$
- ▶ $g = \text{payout ratio} + \text{ROA}$

In Gordon's formula ($r_{CE} = \text{DIV1} / P_0 + g$), r_{CE} is considered as _____ and "g" is considered as _____.

- ▶ Dividend yield, operating expenses
- ▶ Dividend yield, operating income
- ▶ Dividend yield, capital loss
- ▶ **Dividend yield, capital gain**

This is an example of which of the following?

Real estate prices fell across the board because the market was glutted with surplus pre-owned homes for sale.

- ▶ Economic risk
- ▶ Industry risk
- ▶ Company risk
- ▶ **Market risk**

How a company can improve (lower) its debt-to-total asset ratio?

- ▶ By borrowing more
- ▶ By shifting short-term to long-term debt
- ▶ By shifting long-term to short-term debt
- ▶ **By selling common stock**

To increase a given future value, the discount rate should be adjusted _____.

- ▶ **Upward**
- ▶ Downward
- ▶ First upward and then downward
- ▶ None of the given options

Cash budgets are prepared from past:

- ▶ Income tax and depreciation data
- ▶ **None of the given options**
- ▶ Balance sheets
- ▶ Income statements

A 5-year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

- ▶ Rs.231.91
- ▶ Rs.184.08
- ▶ Rs.181.62
- ▶ **Rs.170.44**

Solution:

$$FV = CCP (1 + i)^n / i$$

Why we need Capital rationing?

- ▶ Because, there are not enough positive NPV projects

▶ Because, companies do not always have access to all of the funds they could make use of

- ▶ Because, managers find it difficult to decide how to fund projects
- ▶ Because, banks require very high returns on projects

Which of the following is a person or an institution designated by a bond issuer as the official representative of the bondholders?

- ▶ Indenture
- ▶ Debenture
- ▶ Bond
- ▶ **Bond trustee**

Which of the following would tend to reduce a firm's P/E ratio?

- ▶ The firm significantly decreases financial leverage
- ▶ The firm increases return on equity for the long term
- ▶ **The level of inflation is expected to increase to double-digit levels**
- ▶ The rate of return on Treasury bills decreases

Which of the following factors might affect stock returns?

- ▶ The business cycle
- ▶ Interest rate fluctuations
- ▶ Inflation rates
- ▶ **All of the above**

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

- ▶ **Rs.105,000**
- ▶ Rs.150,000
- ▶ Rs.395,000
- ▶ Rs.350,000

While using capital budgeting techniques, the benefits we expect from a project is expressed in terms of:

- ▶ **Cash in flows**
- ▶ Cash out flows
- ▶ Cash flows
- ▶ None of the given options

By summing up the discounted cash flows we can calculate which of the following?

- ▶ Liquidation value
- ▶ **Intrinsic value**
- ▶ Book value
- ▶ Market value

The value at which buyers and sellers are willing to buy and sell any asset is known as:

- ▶ Liquidation value

- ▶ Book value
- ▶ Intrinsic value
- ▶ **Market value**

Which of the following concept says that rupee in your hand today is better than the rupee you are going to get tomorrow?

- ▶ Risk & return
- ▶ **Time value of money**
- ▶ Net present value
- ▶ Portfolio diversification

Which of the following is a type of annuity in which no time span is involved?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ **Perpetuity**
- ▶ None of the given options

There is _____ relationship between NPV and Economic Value added.

- ▶ **Direct**
- ▶ Indirect
- ▶ No relationship
- ▶ Cannot be determined

If new asset is replaced with old one, the difference between the depreciation of both assets would be:

- ▶ Useless and nothing to do with the depreciation
- ▶ Take the percentage of depreciation with new price of asset and then subtract it
- ▶ Subtracted from cash flows
- ▶ **Added back to cash flows**

The responsibility of research & development projects lie with which of the following authority?

- ▶ Chief executive officer
- ▶ **Divisional heads**
- ▶ Collaborative teams from all departments
- ▶ Experts are hired to make such decisions

Market price of a share will be determined from _____.

- ▶ Supply of share only
- ▶ Demand of share only
- ▶ Price of share of Benchmark Company
- ▶ **From demand and supply in the market**

Which of the following is the formula to calculate present value under zero growth model for common stock?

- ▶ **$DIV1 / r_{CE}$**
- ▶ $DIV1 \times r_{CE}$
- ▶ $DIV1 + r_{CE}$

- ▶ $DIV_1 - r_{CE}$

Earning per share can be calculated with the help of which of the following formula?

- ▶ **Net income / number of shares outstanding**
- ▶ Net income – dividend / number of shares outstanding
- ▶ Operating income / number of shares outstanding
- ▶ Earning before interest and taxes / number of shares outstanding

Which of the following statements is correct relating to the following information?
Stocks A and B each have an expected return of 15% and a standard deviation of 20%. You have a portfolio that consists of 50% A and 50% B.

- ▶ The portfolio's beta is less than 1.2
- ▶ **The portfolio's expected return is 15%**
- ▶ The portfolio's beta is greater than 1.2
- ▶ The portfolio's standard deviation is 20%

Which of the following would be considered a cash-flow item from an "investing" activity?

- ▶ Cash outflow to the government for taxes
- ▶ Cash outflow to shareholders as dividends
- ▶ Cash outflow to lenders as interest
- ▶ **Cash outflow to purchase bonds issued by another company**

You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

- ▶ Will be greater than the intrinsic value of stock B
- ▶ Will be the same as the intrinsic value of stock B
- ▶ **Will be less than the intrinsic value of stock B**
- ▶ None of the given options

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

- ▶ Sunk cost
- ▶ Opportunity cost
- ▶ **Externalities**
- ▶ Contingencies

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

- ▶ Rs.25,300
- ▶ Rs.34,122
- ▶ **Rs.14,549**
- ▶ Rs.11,989

Solution:

$$FV = PV \times (1 + i)^n$$

$$PV = FV / (1 + i)^n$$

$$= 53,000 / (1 + 0.09)^{15}$$
$$= 14,549$$

The objective of _____ is to maximize the shareholder's wealth.

- ▶ Financial economics
- ▶ **Financial management**
- ▶ Financial accounting
- ▶ Financial engineering

Which of the following accounting equation is accurate?

- ▶ Assets + Equity = Liabilities + Expenses
- ▶ **Assets + Expenses = Liabilities + Expenses + Revenue**
- ▶ Assets + Liabilities = Equity + Expenses + Revenue
- ▶ Assets + Revenue + Liabilities = Equity

Through which of the following formula desired growth rate can be calculated?

- ▶ **Return on equity × (1 - payout ratio)**
- ▶ Return on equity / (1 - payout ratio)
- ▶ Return on equity + (1 + payout ratio)
- ▶ Return on equity - (1 / payout ratio)

Which of the following is a type of annuity in which no time span is involved?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ **Perpetuity**
- ▶ None of the given options

Which of the following is not a type of problem in capital rationing?

- ▶ Size difference of projects
- ▶ Timing difference of projects
- ▶ Different lives of different projects
- ▶ **Different cash flow streams**

Market price of a share will be determined from _____.

- ▶ Supply of share only
- ▶ Demand of share only
- ▶ Price of share of Benchmark Company
- ▶ **From demand and supply in the market**

Which of the following is called hybrid equity as it is the combination of both equity and debt factor?

- ▶ Common stocks
- ▶ **Preferred stocks**
- ▶ Bonds & securities
- ▶ All of the given options

Which of the following can be used as measure of return?

- ▶ **Forecasted selling price**

- ▶ Forecasted purchase price
- ▶ Forecasted dividend
- ▶ Forecasted time span of project

Which of the following formula could be used to calculate expected rate of return r ?

- ▶ $P_0 / P_0 \times P_1$
- ▶ $P_1 + P_0 / P_0$
- ▶ $P_1 - P_0 / P_0$
- ▶ $P_0 - P_1 / P_0$

Finance consists of which of the following area(s)?

- ▶ Money and capital market
- ▶ Investment
- ▶ Financial management
- ▶ All of the given options

Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5 percent. What are its sales?

- ▶ 750,0Rs.3, 750,000
- ▶ Rs.48Rs.480, 000
- ▶ Rs.30Rs.300, 000
- ▶ Rs.1, Rs.1, 500,000

Solution:

Since ROI=8% on \$300,000 of assets, then net profit is \$24,000 ($8\% \times \$300,000$).

Using the net profit and given that the NPM=5%, sales equals \$480,000 ($\$24,000 / 5\%$).

Why net present value is the most important criteria for selecting the project in capital budgeting?

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ Because it has direct link with shareholders wealth maximization
- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

- ▶ 7.00
- ▶ 6.53
- ▶ 8.53
- ▶ 7.18

Reference:

Current Yield = Coupon / Market Price

Current Yield = $7\% * 1000 / 975$

Current Yield = $70 / 975$

Current Yield = 0.071×100

Current Yield = 7.18

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%
- ▶ **4.0%**

Solution:

$G = \text{plowback ratio} \times \text{ROE}$.

40% earning retained

60% remaining

$G = 0.60 \times 0.10 = 0.06 \times 100 = 6\%$

An 8% coupon Treasury note pays interest on May 30 and November 30 and is traded for settlement on August 15. What is the accrued interest on Rs. 100,000 face value of this note?

- ▶ Rs. 491.80
- ▶ Rs. 800.00
- ▶ Rs. 983.61
- ▶ **Rs. 1,661.20**

Reference

:Approximation: $.08/12 \times 100,000 = 666.67$ per month. $666.67/\text{month} \times 2.5 \text{ months} = 1,666.67$.

A preferred stock will pay a dividend of Rs. 3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

- ▶ Rs. 0.39
- ▶ Rs. 0.56
- ▶ **Rs. 31.82**
- ▶ Rs. 56.25

Reference:

$$\begin{aligned} \text{PV} &= \text{DIV}_1 / r_{PE} \\ &= 3.5 / 11\% \\ &= 3.5 / 0.11 \\ &= \text{Rs } 31.82 \end{aligned}$$

To calculate the annual rate of return for an investment, we require which of the following(s)?

- ▶ The income created
- ▶ The gain or loss in value

- ▶ The original value at the beginning of the year
- ▶ **All of the given options**

Which of the following investment alternatives would provide the greatest future value for your investment?

- ▶ **10% compounded daily (360 days)**
- ▶ 10.5% compounded annually
- ▶ 10.25% compounded quarterly
- ▶ Incomplete information

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

- ▶ **Rs.250.44**
- ▶ Rs.231.91
- ▶ Rs.181.62
- ▶ Rs.184.08

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

- ▶ Include sunk costs, but ignore opportunity costs
- ▶ **Include opportunity costs, but ignore sunk costs**
- ▶ Ignore both opportunity costs and sunk costs
- ▶ Include both opportunity and sunk costs

Which of the following is (are) true?

- The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return.
 - A decrease in the dividend growth rate will increase a stock's market value, all else the same.
 - An increase in the required return on a stock will decrease its market value, all else the same.
- ▶ I, II, and III
 - ▶ I only
 - ▶ **III only**
 - ▶ II and III only

When bonds are issued, under which of the following category the value of the bond appears?

- ▶ Equity
- ▶ Fixed assets
- ▶ Short term loan
- ▶ **Long term loan**

_____ means expanding the number of investments which cover different kinds of stocks.

- ▶ **Diversification**
- ▶ Standard deviation
- ▶ Variance

- ▶ Covariance

Which of the following equation can represent income statement in best way?

- ▶ Profit – Expenses = sales revenue
- ▶ **Sales revenue – Expenses = Profit**
- ▶ Assets + Liabilities = Equity
- ▶ Sales revenue + Equity = Assets

Which of the following is a type of annuity in which no time span is involved?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ **Perpetuity**
- ▶ None of the given options

All of the following are the examples of annuity EXCEPT:

- ▶ Mortgage payment
- ▶ Insurance premium
- ▶ Monthly rental payments
- ▶ **Fixed coupon payments**

_____ is the value of bond, which we expect the bond to be.

- ▶ **Fair value**
- ▶ Book value
- ▶ Market value
- ▶ Maturity value

YTM is equal to which of the following formula?

- ▶ Capital gain + market price
- ▶ Present value + interest yield
- ▶ Market price + interest yield
- ▶ **Interest yield + capital gain yield**

This is an example of which of the following concept?

ABC Corporation's stock price has fallen because it was not able to meet its production deadlines.

- ▶ Market risk
- ▶ **Company specific risk**
- ▶ Industry risk
- ▶ Economic risk

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

- ▶ **Operational; financial management**
- ▶ Financial management; accounting
- ▶ Accounting; financial management
- ▶ Financial management; operations

A 5-year ordinary annuity has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following?

- ▶ Rs.331.20
- ▶ **Rs.399.30**
- ▶ Rs.431.24
- ▶ Rs.486.65

In proper capital budgeting analysis we evaluate incremental _____ cash flows.

- ▶ Accounting
- ▶ **Operating**
- ▶ Before-tax
- ▶ Financing

Mortgage bonds are secured by real property whose value is generally _____ than that of the value of the bonds issue?.

- ▶ **Higher**
- ▶ Lower
- ▶ Equal
- ▶ Higher or lower

If a company issues bonus shares, what will be its effect on the debt equity ratio?

- ▶ It will improve
- ▶ It will deteriorate
- ▶ **No effect**
- ▶ None of the given options

_____ is one of the most common techniques of financial analysis.

- ▶ Analyzing the statement of equity
- ▶ Preparing the cash budget
- ▶ **scrutinizing of Financial statement**
- ▶ Forecasting the income statement

Which of the following formula is used to calculate the future value in simple interest?

- ▶ **$FV = PV + (PV \times i \times n)$**
- ▶ $FV / (PV \times i \times n) = PV$
- ▶ $FV = PV - (PV \times i \times n)$
- ▶ $FV = PV \times (PV \times i \times n)$

Which of the following are the types of annuities?

- ▶ Perpetuity and discrete annuity
- ▶ Ordinary and discrete annuity
- ▶ Discrete and simple annuity
- ▶ **Ordinary and annuity due**

Value of annuity depends upon which of the following factors?

- ▶ Cash inflows & outflows

- ▶ Required rate of return & cash flows
- ▶ **Constant cash flows & discount factor**
- ▶ Constant cash flows & life of investment

Which of the following statement best describes capital budgeting?

- ▶ It's a tool which is used to evaluate the projects and fixed assets of the company
- ▶ A technique used to assess the working capital requirement
- ▶ It will help the management to decide whether the new venture should be taken up or not.
- ▶ **All of the given options are correct**

IRR can be defined as:

- ▶ **A discount rate that equates the PV of a project's expected cash inflows to the PV of project's cost**
- ▶ Present value of the stream of net cash flows from project's net investment
- ▶ It's a cost & benefits ratio used to assess the validity of a project
- ▶ The time period required to receive back the initial investment.

If the life of a project is 6 years and the life of other project is 2 years then least common multiple will be:

- ▶ 2 years
- ▶ 6 years
- ▶ 8 years
- ▶ **12 years**

Which of the following is the price which is mentioned on the bonds?

- ▶ **Face value**
- ▶ Salvage value
- ▶ Market value
- ▶ Book value

When you allocate capital, you choose investments that are more beneficial and less

- ▶ Diversified
- ▶ **Risky**
- ▶ Costly
- ▶ Value based

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

- ▶ Income
- ▶ Capital loss
- ▶ Capital gain
- ▶ **Operating income**

Which if the following refers to capital budgeting?

Investment in long-term liabilities

Investment in fixed assets

Investment in current assets

Investment in short-term liabilities

Which of the following refers to the cost of taking up one option while sacrificing the other?

Opportunity cost

Operating cost

Sunk cost

Floation cost

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods)(1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Indenture

Debenture

Bond

Bond trustee

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$20000/(1.08)^{20} = 93129$

Which of the following is the Double Entry Principle?

Assets + Liabilities = Shareholders' Equity

Assets = Liabilities + Shareholders' Equity

Liabilities = Assets + Shareholders' Equity

None of the given option

What are the Direct claim securities?

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Which of the following is NOT true regarding an ordinary annuity?

It is a series of equal cash flows

Cash flows occur for a specific time period

Payments are made at the start of each period

It is also known as deferred annuity

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

An increase

A decrease

No change

Incomplete information

As interest rates go up, the present value of a stream of fixed cash flows ____.

Goes down

Goes up

Stays the same

Can not be found from the given information

How "Shareholder wealth" is represented in a firm?

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

Given no change in required returns, the price of a stock whose dividend is constant will _____.

Decrease over time at a rate of $r\%$

Remain unchanged

Increase over time at a rate of $r\%$

Decrease over time at a rate equal to the dividend growth rate

Nominal Interest Rate is also known as:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

What is difference between shares and bonds?

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Intrinsic value

Book value

Par value

Historic cost

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

_____ are also known as Spontaneous Financing.

Current liabilities

Current assets

Fixed assets

Long-term liabilities

_____ is paid by companies with lower grade bonds like CC or C ratings.

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Financial accounting

Financial management

Financial engineering
Financial budgeting

What is the long-run objective of financial management?

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?

Estimate year-by-year Sales Revenue and Expenses

Estimate Levels of Investment Needs required to Meet Estimated Sales

Estimate the Financing Needs

Estimate the retained earnings

Which of the following is NOT the type of Hybrid organizations?

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

Which of the following techniques would be used for a project that has non-normal cash flows?

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?

Involvement of interest rate while making calculations

Do not account for time value of money

Tricky and complicated methods

All of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Which of the following refers to bringing the future cash flow to the present time

Net present value

Discounting

Opportunity cost

Internal rate of return

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Effective interest rate is different from nominal rate of interest because

Nominal interest rate ignores compounding

Nominal interest rate includes frequency of compounding

Periodic interest rate ignores the effect of inflation (Doubted)

All of the given options

What are the Indirect securities

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that indirectly generate returns for its investors

All of the given options

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Which of the following is the general assumption of Percent of Sales Forecasting?

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

Current Assets usually grow in proportion to Liabilities

Current Assets usually grow in proportion to Sales

Which of the following is/are the component(s) of working capital management?

Current assets

Fixed assets

Fixed assets and long-term liabilities

Current assets and current liabilities

Which of the following is NOT true regarding an annuity due?

It is a series of equal cash flows

It is also known as deferred annuity

Cash flows occur for a specific time period

Payments are made at the start of each period

Which of the following is/are the characteristic(s) of Perpetuity?

It is an annuity

It has no definite end

It is a constant stream of identical cash flows

All of the given options

A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Pay back period

Internal rate of return

Net present value

Profitability index

Question # 71

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Reference:

$$FV = PV \times e^{i \times n}$$

$$FV = 20000 \times 2.718(0.08 \times 20)$$

$$FV = 20000 \times 4.95221081$$

$$FV = 99044.2162$$

Question # 72

Which of the following is a limitation of a Corporation?

Select correct option:

Easy to set up

Double-taxation

Inexpensive to maintain

Unlimited liability

Question # 73

The return in excess to risk free rate that investors require for bearing the market risk is known as:

Select correct option:

- Default risk premium
- Sovereign Risk Premium**
- Market risk premium
- Maturity risk premium

Study the time line and accompanying 5-period cash-flow pattern below.

0	1	2	3	4	5	6
Time line	-----	-----	-----	-----	-----	-----
Cash flows	A	B				

The present value of the 5-period annuity shown above as of Point A is _____, whereas the future value of the same annuity as of Point B is the future value of a 5-period _____.

- Select correct option:
- Ordinary annuity; ordinary annuity
 - Ordinary annuity; annuity due
 - Annuity due; annuity due**
 - Annuity due; ordinary annuity

The value of direct claim security is derived from which of the following?

- Select correct option:
- Fundamental analysis
 - Underlying real asset**
 - Supply and demand of securities in the market
 - All of the given options

Who determine the market price of a share of common stock?

- Select correct option:
- The board of directors of the firm
 - The stock exchange on which the stock is listed
 - The president of the company
 - Individuals buying and selling the stock**

Question # 77

Which of the following statements (in general) is correct?

- Select correct option:
- A low receivables turnover is desirable
 - The lower the total debt-to-equity ratio, the lower the financial risk for a firm (Doubted)**
 - An increase in net profit margin with no change in sales or assets means a weaker ROI
 - The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 78

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

- Select correct option:
- Default risk premium**
 - Sovereign Risk Premium
 - Market risk premium
 - Maturity risk premium

Question # 79

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

Reference: (Page14)

Operating Revenue – Other Expenses + Other Revenue = EBIT

Question # 80

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Question # 81

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

Reference:

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$1000 = pmt * ((1.05)^{-8} - 1)/.05$

$1000 = PMT * 6.46$

$PMT = 1000/6.46 = 154.73$

Question # 82

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock
None of the given options

Question # 83

Which of the following is type a Temporary Account?

Select correct option:

- Asset
- Liability
- Reserves
- Revenue**

Reference:

P/L Items or Accounts are 'temporary' accounts that need to be closed at the end of the accounting cycle

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, _____?

Select correct option:

- Both bonds will increase in value, but bond A will increase more than bond B
- Both bonds will increase in value, but bond B will increase more than bond A**
- Both bonds will decrease in value, but bond A will decrease more than bond B
- Both bonds will decrease in value, but bond B will decrease more than bond A

Question # 86

Which of the following can not be the drawback of using payback period technique of capital budgeting?

Select correct option:

- It does not account for time value of money
- It neglects cash flows after the payback period
- It does not use interest rate while making calculations
- It is a tricky and complicated method**

REF: payback period is a simple and straightforward method for analyzing. Page 40

Question # 87

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

- Default risk premium
- Sovereign Risk Premium
- Market risk premium (doubted)**
- Maturity risk premium

What should be the focal point of financial management in a firm?

Select correct option:

- The number and types of products or services provided by the firm
- The minimization of the amount of taxes paid by the firm
- The creation of value for shareholders**
- The dollars profits earned by the firm

Question # 91

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

- Accounts that are found on Income Statement
- Accounts that are found on Statement of Retained Earnings
- Accounts that are found on Balance Sheet**
- All of the given options

Question # 92

Which of the following is FALSE about Perpetuity?

Select correct option:

- It is a series of cash flows
- Cash flows occur for a specific time period**
- Its cash flows are identical
- None of the given options

Question # 93

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?

Select correct option:

- 3.33%
- 30%
- 31%
- 70%**

Reference:

Plowback=1-Payout

Plowback + Payout=1

Payout = 1 – Plowback

Payout = 1 – 30%

Payout = 1 – 0.3

Payout = 0.07*100

Payout = 70%

Question # 94

Which of the following is the risk of investing funds in another country?

Select correct option:

- Default risk premium
- Sovereign Risk Premium**
- Market risk premium
- Maturity risk premium

Question # 95

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

- Cash outflow to the government for taxes
- Cash outflow to shareholders as dividends
- Cash outflow to lenders as interest
- Cash outflow to purchase bonds issued by another company**

Question # 96

MIRR (discount rate) equates which of the following?

Select correct option:

- Future value of cash inflows to the present value of cash outflows**
- Future value of cash flows to the present value of cash flows
- Future value of all cash flows to zero
- Present value of all cash flows to zero

Question # 97

Which of the following is the main objective of 'Economics'?

Select correct option:

- Profit maximization**
- Maximization of shareholders wealth
- Collection of accurate, systematic, and timely financial data
- All of the given options

Question # 98

An investment proposal should be judged in whether or not it provides:

Select correct option:

- A return equal to the return require by the investor
- A return more than required by investor
- A return less than required by investor
- A return equal to or more than required by investor**

Question # 99

Which of the following refers to time value of money concept?

Select correct option:

- A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow
- A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow**
- A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow
- All of the given options

Question # 100

Which of the following is NOT true regarding the capital market?

Select correct option:

Where long-term funds can be raised
Money is invested for periods longer than a year
Where TFCs and NIT are exchanged and traded
Where overnight lending & borrowing takes place

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

[Reference](#)

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

Its not multiple compounding otherwise use this formula

$P \cdot (1+i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

FV = PMT * ((1+i)^n - 1)/i (formula use to calc fv of annuity)

PV = PMT * ((1+i)^-n - 1)/i (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = \text{pmt} * ((1.05)^8 - 1)/.05$$

$$1000 = \text{PMT} * 6.46$$

$$\text{PMT} = 1000/6.46 = 154.73$$

Now from above two ann

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ {270} - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture
Bond
Bond trustee

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than
More than
Equal to
Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes
Cash outflow to shareholders as dividends
Cash outflow to lenders as interest
Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate
Required rate of return
Interest rate risk
All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV
Group projects together to allocate the funds available and select the group of projects with the highest NPV
Choose the project with the highest NPV
Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical of earnings growth than that of the average firm

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

Reference

Expected Portfolio Return = _____.

Select correct option:

$r_P^* = x_A r_A + x_B r_B$

$r_P^* = x_A r_A - x_B r_B$

$r_P^* = x_A r_A / x_B r_B$

$r_P^* = x_A r_A * x_B r_B$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

For most firms, P/E ratios and risk _____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation
Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

- Common stock
- Debt**
- Preferred stock
- None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

- Probability distribution
- Expected return
- Standard deviation**
- Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

- The number of people employed in the firm
- The book value of the firm's assets less the book value of its liabilities
- The market price per share of the firm's common stock**
- The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

- Unlimited liability
- Single tax filing
- Difficult ownership resale
- Raising capital**

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

- Cash in flows**
- Cash out flows
- Cash flows
- None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

- Sales variability
- Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25

-1.0

1.0

0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Cash budgets are prepared from past:

Select correct option:

Balance sheets

Income statements

Income tax and depreciation data

None of the given options

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change
Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?
Select correct option:

The Capital Asset Pricing Model
M&M Proposition I
M&M Proposition II
The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?
Select correct option:

Real assets of the business
Liquid assets of the business
Fixed assets of the business
Lon term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk
Standard deviation
Unsystematic risk
Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs
Agency costs
Transactions costs
Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt
Preferred stock

Common stock
None of the given options

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

Select correct option:

Higher; lower
Lower; Lower
Lower; higher
Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$rP^* = xA rA + xB rB$
 $rP^* = xA rA - xB rB$
 $rP^* = xA rA / xB rB$
 $rP^* = xA rA * xB rB$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability
Level of fixed operating costs
Closeness to its operating break-even point
Debt-to-equity ratio

For most firms, P/E ratios and risk _____.

Select correct option:

Will be directly related
Will have an inverse relationship
Will be unrelated
None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger
Larger; Smaller
Smaller; Larger
Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B
Project B dominates project A
Neither project dominates the other in terms of risk and return
Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

- Diversification**
- Standard deviation
- Variance
- Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

- The common stock equity account on the firm's balance sheet
- The sum of common stock and preferred stock on the balance sheet
- The book value of the firm
- The current market price per share of common stock times the number of shares Outstanding**

What is the long-run objective of financial management?

Select correct option:

- Maximize earnings per share
- Maximize the value of the firm's common stock**
- Maximize return on investment
- Maximize market share

_____ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

- Credit analysts
- Fundamental analysts**
- Systems analysts
- Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

- The Capital Asset Pricing Model
- M&M Proposition I**
- M&M Proposition II
- The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest
Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety of purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

Commercial paper

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets
Current assets
Current assets minus current liabilities

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

- Increase
- Decrease**
- Either increase or decrease
- None of the given options

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

- Comparable
- Correlated
- Highly correlated
- Negatively correlated**

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

- There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each
- There will be four times as many shares outstanding, and they will sell for Rs.160.00 each
- There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each**
- There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

- The new shares are worth less than the old shares
- The old shares drop in value to equal the new price
- The value of the firm is reduced by the amount of the dividend
- The value of the firm is unaffected**

When taxes are considered, the value of a levered firm equals the value of the _____.

Select correct option:

- Unlevered firm
- Unlevered firm plus the value of the debt
- Unlevered firm plus the present value of the tax shield**
- Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

- Debt capacity**
- Debt-service burden
- Adequacy capacity
- Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

- Discount basis interest rate
- Long-term bond rate
- Prime rate**
- Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

- M&M Proposition I with taxes
- M&M Proposition I without taxes
- M&M Proposition II without taxes**
- M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

- Debt capacity
- Debt-service burden**
- Adequacy capacity
- Fixed-charge burden

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

- Long-term debt
- Preferred stock**
- Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

- 2,000 cases
- 4,000 cases**
- 8,000 cases
- 16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

- Total assets
- Fixed assets
- Current assets
- Current assets minus current liabilities**

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

- The market value of a firm's common stock is independent of its capital structure
- The market value of a firm's debt is independent of its capital structure
- The market value of any firm is independent of its capital structure**
- None of the given options

The value of direct claim security is derived from which of the following?

Select correct option:

- Fundamental analysis
- Underlying real asset**
- Supply and demand of securities in the market
- All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

- Sales variability
- Level of fixed operating costs
- Closeness to its operating break-even point**
- Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Which of the following is related to the use of lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

When a firm needs guaranteed, short-term funds available for a variety of purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs
Default beta coefficients
Direct bankruptcy costs
Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?
Select correct option:

Its financial risk increases
Its operating risk increases
The expected return on equity increases
The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?
Select correct option:

It includes all publicly traded financial assets
It is the tangency point between the capital market line and the indifference curve
All securities in the market portfolio are held in proportion to their market values
It lies on the efficient frontier

Which of the following factor(s) do NOT affect the movements in the market index?
Select correct option:

Macroeconomic factors
Socio political factors
Social factors
All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
Select correct option:

Fall
Rise
Remain unchanged
Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:
Select correct option:

Magnitude of expected cash flows
Timing of expected cash flows
Both timing and magnitude of cash flows
None of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to
Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?
Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

According to MM II, what happens when a firm's debt-to-equity ratio increases?
Select correct option:

- Its financial risk increases
- Its operating risk increases
- The expected return on equity increases**
- The expected return on equity decreases

Which of the following would NOT improve the current ratio?
Select correct option:

- Borrow short term to finance additional fixed assets**
- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities
- Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

- Select correct option:
- Equity
 - Fixed assets
 - Short term loan
 - Long term loan**

10. Which of the following transactions affects the acid-test ratio?

- a. **Receivables are collected.**
- b. Inventory is liquidated for cash.
- c. New common stock is sold and used to retire a debt issue.
- d. A new common stock issue is sold and equipment purchased

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity
- c. **An annuity due**
- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call

- b. Coupon payment
- c. Yield-to-maturity**
- d. Sinking fund yield

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. Primary money market**
- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is

less than its coupon rate, the bond will be selling at _____.

- a. A discount**
- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

- a. Rs.40
- b. Rs.35
- c. Rs.30**
- d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

- a. Growth stock
- b. Income stock**
- c. Aggressive stock
- d. Defensive stock

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

- Maximizing the market value of the firm
- Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds
Maximizing the profits of the firm

Which of the following has the same meaning as the working capital to financial analyst?
Select correct option:

- Total assets
- Fixed assets
- Current assets
- Current assets minus current liabilities**

Which of the followings are the propositions of Modigliani and Miller's?
Select correct option:

- The market value of a firm's common stock is independent of its capital structure
- The market value of a firm's debt is independent of its capital structure
- The market value of any firm is independent of its capital structure**
- None of the given options

How "Shareholder wealth" is represented in a firm?
Select correct option:

- The number of people employed in the firm
- The book value of the firm's assets less the book value of its liabilities
- The market price per share of the firm's common stock**
- The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?
Select correct option:

- Fundamental analysis
- Underlying real asset**
- Supply and demand of securities in the market
- All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
Select correct option:

- Fall
- Rise**
- Remain unchanged
- Incomplete information

Which of the following is an example of restructuring the firm?
Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk
New equity is issued and the proceeds repay debt
A new Board of Directors is elected to the firm

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Risk of owning equity securities
Risk faced by equity holders when debt is used
General business risk of the firm
Possibility that interest rates will increase

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Select correct option:

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Because there may be chance of rapid growth
Because they have invested a lot
All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?
Select correct option:

Interest tax shield
Depreciable basis
Financing umbrella
Current yield

An annuity due is always worth ___ a comparable annuity.
Select correct option:

Less than
More than
Equal to
Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?
Select correct option:

Financing short-term needs with short-term funds
Financing permanent inventory buildup with long-term debt
Financing seasonal needs with short-term funds
Financing some long-term needs with short-term funds

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

By borrowing more
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By **selling common stock**

**Which of the following factor(s) do NOT affects the movements in the market index?
Select correct option:**

Macroeconomic factors
Socio political factors
Social factors
All of the given options

Which of the following is a major disadvantage of the corporate form of organization?
Select correct option:

Double taxation of dividends
Inability of the firm to raise large sums of additional capital
Limited liability of shareholders
Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.
Select correct option:

Upward
Downward
First upward and then downward
None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income
Dividends; current income; institutional considerations
Current income; dividends; institutional considerations
Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?
Select correct option:

Financial leverage
Weighted-average cost of capital
Capital structure
Business risk

Which of the following refers to financial risk?
Select correct option:

- Risk of owning equity securities
- Risk faced by equity holders when debt is used**
- General business risk of the firm
- Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?
Select correct option:

- Probability distribution
- Expected return**
- Standard deviation
- Coefficient of variation

Coefficient of variation is NOT the measure of _____.
Select correct option:

- Risk
- Probability**
- Relative dispersion
- Risk per unit of expected return

because its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?
Select correct option:

- January 11
- January 22**
- January 30
- December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?
Select correct option:

- Fixed costs
- Variable costs
- Debt financing
- Common equity financing**

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html)

[hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html)

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will lie above the regression line

It will lie exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line
It will lie above the regression line
It will lie exactly on the regression line
It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?
Select correct option:

Its market risk is negligible
Its unsystematic risk is negligible
Its systematic risk is negligible
All of the given options

Which of the following portfolio statistics statements is correct?
Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is known as:

- a. **SWOT Analysis**
- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:

- a. **A premium**
- b. A discount
- c. Cannot be determined without more information
- d. Face value

4. Which of the following statements best describe the 'Balance Sheet'?

- a. Summarizes the firm's revenues and expenses over an accounting period
- b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
- c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

- a. They measure the amount of debt the firm uses
- b. They measure how effectively a firm is managing its assets
- c. They show the relationship of a firm's cash and other current assets to its current liabilities
- d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

- a. When a project has conventional cash flows patterns
- b. When a project has a non-conventional cash flow pattern
- c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if:

- a. Cost of goods sold increased relative to sales.
- b. Sales increased relative to expenses.

c. The tax rate has been increased

- d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

- a. Will not experience any difficulty with its creditors.
- b. Has less liquidity than other firms in the industry.
- c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

- a. Based on their estimated liquidation value
- b. Based on their relative importance to the company
- c. Based on their actual purchase price
- d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

- a. **Receivables are collected.**
- b. Inventory is liquidated for cash.
- c. New common stock is sold and used to retire a debt issue.
- d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

- a. Discounting
- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity

c. An annuity due

- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call
- b. Coupon payment

c. Yield-to-maturity

- d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

- a. Its price will rise
- b. Its price will remain unchanged
- c. Its price will fall.
- d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. **Primary money market**
- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is

less than its coupon rate, the bond will be selling at _____.

a. A discount

- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.
- c. Is zero if the company pays no dividends
- d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

- a. Rs.40
- b. Rs.35
- c. Rs.30**
- d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

- a. Growth stock
- b. Income stock**
- c. Aggressive stock
- d. Defensive stock

Question # 15 of 15 (Start time: 04:21:27 PM) Total Marks: 1

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Question # 9 of 15 (Start time: 05:19:40 PM) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market

Real asset market

Question # 2 of 15 (Start time: 05:26:44 PM) Total Marks: 1

The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: $ROE = \underline{\hspace{2cm}}$.

Select correct option:

Net profit margin \times Total asset turnover \times Equity multiplier

Total asset turnover \times Gross profit margin \times Debt ratio

Total asset turnover \times Net profit margin

Total asset turnover \times Gross profit margin \times Equity multiplier

Question # 8 of 15 (Start time: 06:19:14 PM) Total Marks: 1

Total portfolio risk is _____.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?

Select correct option:

Operational; financial management

Financial management; accounting

Accounting; financial management

Financial management; operations

If Net Present Value technique is used, what is the minimum acceptance criterion for a project?

Select correct option:

NPV < 0

NPV = 0

NPV > 0

NPV \leq 0

Question # 14 of 15 (Start time: 09:23:53 PM) Total Marks: 1

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

MGT201 Solved MCQ

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth
Because they have invested a lot
All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) Total Marks: 1
To increase a given future value, the discount rate should be adjusted

_____.
Select correct option:

- Upward**
- Downward
- First upward and then downward
- None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) Total Marks: 1
In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

- Fall
- Rise**
- Remain unchanged
- Incomplete information

Question # 4 of 10 (Start time: 04:07:25 PM) Total Marks: 1
A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

- $(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$
- $(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$
- $(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$
- Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) Total Marks: 1
At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

- Book value
- Intrinsic value
- Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) Total Marks: 1

What is the long-run objective of financial management?

Select correct option:

- Maximize earnings per share
- Maximize the value of the firm's common stock**
- Maximize return on investment
- Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) Total Marks: 1

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

- Unlimited liability
- Single tax filing
- Difficult ownership resale
- Raising capital**

Question # 8 of 10 (Start time: 04:10:16 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

- Market interest rate
- Required rate of return
- Interest rate risk
- All of the given options**

Question # 9 of 10 (Start time: 04:10:31 PM) Total Marks: 1

An annuity due is always worth _____ a comparable annuity.

Select correct option:

- Less than
- More than**
- Equal to
- Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

Payback period
Internal rate of return
Net present value
Profitability index

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

[Reference](#)

SHAIKH

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

Its not multiple compounding otherwise use this forumal

$P \cdot (1+i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

SHAIKH

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following

assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

SHAIKH

Long term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

SHAIKH

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Now from above two ann

MGT201 Solved MCQ3 from Quiz

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

SHAIKH

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

$\{ [1 + (.056/360)] ^ {270} - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

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Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

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To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

MGT201 Solved MCQ4 from Quiz

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

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More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) Total Marks: 1

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) Total Marks: 1

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 4 of 10 (Start time: 04:13:54 PM) Total Marks: 1

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Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) Total Marks: 1

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

Question # 6 of 10 (Start time: 04:16:37 PM) Total Marks: 1

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Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) Total Marks: 1

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) Total Marks: 1

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

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Sunk cost

Opportunity cost

Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) Total Marks: 1

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical of earnings growth than that of the average firm

Which of the following is called the tax savings of the firm derived from the

deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

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The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

Reference

Expected Portfolio Return = _____.

Select correct option:

$rP^* = xA rA + xB rB$

$rP^* = xA rA - xB rB$

$rP^* = xA rA / xB rB$

$rP^* = xA rA * xB rB$

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index
Net present value
Pay back period

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If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

- 0
- 0.5
- 1
- 1

For most firms, P/E ratios and risk _____.

Select correct option:

- Will be directly related
- Will have an inverse relationship**
- Will be unrelated
- None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

- Debt capacity
- Debt-service burden**
- Adequacy capacity
- Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

- APT stipulates
- CAPM stipulates
- Both CAPM and APT stipulate**
- Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

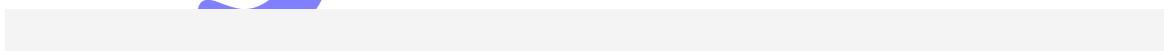
Select correct option:

- Business cycle
- Interest rate fluctuations
- Inflation rates

All of the above

If all things equal, when diversification is most effective?

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Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors
Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds
Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

To increase a given future value, the discount rate should be adjusted

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at some

point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - QBE)/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$Q(P-V) / [Q(P-V) - FC]$

The value of a bond is directly derived from which of the following?

Select correct option:

- Cash flows
- Coupon receipts
- Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

- Real risk-free rate
- Risk premium for stocks
- Return on assets**
- Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

Debt

Preferred stock

None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

SHAIKH

Standard deviation

Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Total Marks: 1

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25

-1.0

1.0
0.5

Which of the following is related to the use Lower financial leverage?
Select correct option:

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Fixed costs
Variable costs
Debt financing
Common equity financing

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

- There is less demand for stock than for bonds
- There is greater demand for stock than for bonds
- There is more systematic risk involved for the common stock**
- There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

- Book value per share**
- Liquidation value per share
- Market value per share
- None of the above

When a bond will sell at a discount?

Select correct option:

- The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- The coupon rate is greater than yield to maturity
- The coupon rate is less than the current yield and the current yield is greater than the yield to maturity**

The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?
Select correct option:

Cash outflow to the government for taxes
Cash outflow to shareholders as dividends

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Cash inflow to the firm from selling new common equity shares
Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?
Select correct option:

Sales variability
Level of fixed operating costs
Closeness to its operating break-even point
Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?
Select correct option:

Probability distribution
Expected return
Standard deviation
Coefficient of variation

Why companies invest in projects with negative NPV?
Select correct option:

Because there is hidden value in each project
Because there may be chance of rapid growth
Because they have invested a lot
All of the given options

Cash budgets are prepared from past:
Select correct option:

Balance sheets
Income statements
Income tax and depreciation data
None of the given options

The cash budget is prepared from forecasted cash collections and disbursements rather

SHAIKH

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Lon term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM)

Total Marks: 1

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs

Agency costs

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Transactions costs
Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

- Long-term debt
- Preferred stock**
- Common stock
- None of the given options

According to timing difference problem a good project might suffer from ____ IRR even though its NPV is ____.

Select correct option:

- Higher; lower
- Lower; Lower
- Lower; higher**
- Higher; higher

Expected Portfolio Return = _____.

Select correct option:

- $rP^* = xA rA + xB rB$**
- $rP^* = xA rA - xB rB$
- $rP^* = xA rA / xB rB$
- $rP^* = xA rA * xB rB$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

- Sales variability
- Level of fixed operating costs
- Closeness to its operating break-even point**
- Debt-to-equity ratio

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

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The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

- Larger; Larger**
- Larger; Smaller
- Smaller; Larger
- Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

- Project A dominates project B
- Project B dominates project A
- Neither project dominates the other in terms of risk and return**
- Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

- Diversification**
- Standard deviation
- Variance
- Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

- The common stock equity account on the firm's balance sheet
- The sum of common stock and preferred stock on the balance sheet
- The book value of the firm
- The current market price per share of common stock times the number of shares Outstanding**

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

SHAIKH

Maximize return on investment
Maximize market share

_____ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

- Credit analysts
- Fundamental analysts**
- Systems analysts
- Technical analysts

Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

- The Capital Asset Pricing Model
- M&M Proposition I**
- M&M Proposition II
- The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

- Operating, investing, and financing**
- Investing, operating, and financing
- Financing, operating and investing
- Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

- Pay back period**
- Internal rate of return
- Net present value
- Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

SHAIKH

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

- 0
- 1.0**
- 1.0
- 1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

- Depreciation
- Sunk cost**
- Opportunity cost
- Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

- It is offering lower rate of return as compared to the efficient stock
- It is offering higher rate of return as compared to the efficient stock**
- Its rate of return is zero as compared to the efficient stock
- It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

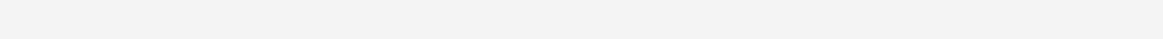
Select correct option:

- Internal rate of return
- Multiple internal rate of return**
- Modified internal rate of return
- Net present value

Which of the following is NOT a cash outflow for the firm?

Select correct option:

- Depreciation**
- Dividends
- Interest



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Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same

I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values



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Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

Commercial paper

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same. Assume there are no taxes

Select correct option:

Increase

Decrease

Either increase or decrease

None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated

Negatively correlated

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The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclical growth of earnings than that of the average firm

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

- The new shares are worth less than the old shares
- The old shares drop in value to equal the new price

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The value of the firm is reduced by the amount of the dividend
The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk**
- Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the_____.

Select correct option:

- Unlevered firm
- Unlevered firm plus the value of the debt
- Unlevered firm plus the present value of the tax shield**
- Unlevered firm plus the value of the debt plus the value of the tax shield

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

- Debt capacity**
- Debt-service burden
- Adequacy capacity
- Fixed-charge burden

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

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Prime rate

Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes

M&M Proposition II without taxes

M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

SHAIKH

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

SHAIKH

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure

The market value of a firm's debt is independent of its capital structure

The market value of any firm is independent of its capital structure

None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

SHAIKH

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

SHAIKH

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

SHAIKH

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

SHAIKH

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

SHAIKH

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

SHAIKH

Stock split

Stock dividend

Extra dividend

Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Which of the following is related to the use Lower financial leverage?

Select correct option:

SHAIKH

Fixed costs

Variable costs

Debt financing

Common equity financing

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

SHAIKH

Profitability index

Net present value

Pay back period

Which of the following is related to the use Lower financial leverage?

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Variable costs

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Common equity financing

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

SHAIKH

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

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The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?

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SHAIKH

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Which of the following factor(s) do NOT affects the movements in the market index?

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Social factors

All of the given options

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Fall

Rise

Remain unchanged

Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

SHAIKH

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

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SHAIKH

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Possibility that interest rates will increase

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Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

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SHAIKH

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Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

When Investors want high plowback ratios?
Select correct option:

SHAIKH

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Which of the following could be taken same as minimizing the weighted average cost of capital?
Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

SHAIKH

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- Fixed assets
- Current assets
- Current assets minus current liabilities**

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Fall
Rise
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Incomplete information

SHAIKH

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Which of the following refers to financial risk?
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- Depreciable basis
- Financing umbrella
- Current yield

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Select correct option:

- Less than
- More than**
- Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

SHAIKH

Financing short-term needs with short-term funds
Financing permanent inventory buildup with long-term debt
Financing seasonal needs with short-term funds
Financing some long-term needs with short-term funds

How can a company improve (lower) its debt-to-total asset ratio?
Select correct option:

By borrowing more
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By selling common stock

Which of the following factor(s) do NOT affect the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

SHAIKH

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option:

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

Which of the following refers to financial risk?

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Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

because its dispersion of probability

SHAIKH

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

Profitability moves together with liquidity

SHAIKH

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

SHAIKH

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

SHAIKH

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

SHAIKH

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

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Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

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Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit

All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

SHAIKH

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will lie above the regression line

It will lie exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

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It will line above the regression line

It will line exactly on the regression line

It will be tangent to the regression line

SHAIKH

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

SHAIKH

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business.

His best choice of form of ownership would be:

- a. S-corporation
- b. Partnership
- c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is know as:

- a. **SWOT Analysis**
- b. Trend Analysis
- c. Fundamental Analysis
- d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than

its coupon rate, the bond is selling at:

- a. A premium**
- b. A discount

c. Cannot be determined without more information

d. Face value

4. Which of the following statements *best* describe the 'Balance Sheet'?

a. Summarizes the firm's revenues and expenses over an accounting period

b. Reports how much of the firm's earnings were retained in the business rather

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than paid out in dividends

c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time

5. Which of the following is the purpose of the Debt management ratios?

a. They measure the amount of debt the firm uses

b. They measure how effectively a firm is managing its assets

c. They show the relationship of a firm's cash and other current assets to its current

liabilities

d. They show the combined effects of all areas of the firm on operating results

6. In which of the following situations a project is acceptable?

a. When a project has conventional cash flows patterns

b. When a project has a non-conventional cash flow pattern

c. When a project has a discounted rate higher than the inflation rate

d. When a project has a positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the

same period. This could have happened if:

a. Cost of goods sold increased relative to sales.

b. Sales increased relative to expenses.

c. The tax rate has been increased

d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average

of 1.4. This means that the company

a. Will not experience any difficulty with its creditors.

b. Has less liquidity than other firms in the industry.

c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its

industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

a. Based on their estimated liquidation value

b. Based on their relative importance to the company

c. Based on their actual purchase price

d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

b. Inventory is liquidated for cash.

c. New common stock is sold and used to retire a debt issue.

d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

a. Discounting

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- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called:

- a. An opportunity cost annuity.
- b. An ordinary annuity
- c. An annuity due**
- d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

- a. Yield-to-call
- b. Coupon payment
- c. Yield-to-maturity**
- d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases:

- a. Its price will rise
- b. Its price will remain unchanged
- c. Its price will fall.
- d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

- a. Primary capital market
- b. Primary money market**
- c. Secondary money market
- d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at _____.

- a. A discount**
- b. A premium
- c. Par value
- d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.
- d. All interest payments in one lump sum at maturity.**

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.

- c. Is zero if the company pays no dividends
- d. Is the discounted capital gain expected on the stock

SHAIKH

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

- a. Rs.40
- b. Rs.35
- c. Rs.30**
- d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

- a. Growth stock
- b. Income stock**
- c. Aggressive stock
- d. Defensive stock

SHAIKH