MIDTERM EXAMINATION
Spring 2009
FIN622- Corporate Finance (Session - 1)

Question No: 1 -- Please choose one
Which of the following statements is TRUE regarding Profitability Index?
It ignores time value of money
It ignores future cash flows
It ignores the scale of investment -
It ignores return on investment
Question No: 2 -- Please choose one
Which one of the following is an offering in which the shares of a company are offered to a limited number of investors?
Initial Public Offering
Private Placement -
Direct Public Offering
Primary Offering
Question No: 3 -- Please choose one
Following are the disadvantages of the Corporate Form of an organization EXCEPT
Reduction of double taxation.
Limited owner liability. -
Legal restrictions.
Ease of organization.
Question No: 4 -- Please choose one
Suppose that a corporation of which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. How much of your investment would you get back?
A proportionate share of bondholder claims based on the number of common shares that you own.
A proportional share of all creditor claims based on the number of common shares that you own.
An amount that could, at most, equal what you originally paid for the shares of common stock in the corporation.
Nothing -
Question No: 5 -- Please choose one
Which of the following is a limitation of the Times Interest Earned Ratio?
It does not consider earnings of the company
It does not consider fixed financial payments other than interest
It uses earnings before interest and taxes which does not represent all of the cash flow available to service debt -
It does not consider interest expense of the company
Question No: 6 -- Please choose one
If a creditor wants to know about the bill payment status of a potent ial customer, the creditor could look at which one of the following ratios?
Current ratio.
Acid ratio.
Average age of accounts payable. -

Average age of accounts receivable
Question No: 7 -- Please choose one
For financial statement purposes, the accounting value of fixed assets is based upon which of the following?
It is based on their estimated liquidation value.
It is based on their relative importance to the company.
It is based on their actual purchase price. -
It is based on their current market price.
Question No: 8 -- Please choose one
Which of the following transactions affects the acid-test ratio?
Receivables are collected.
Inventory is liquidated for cash. -
New common stock is sold and used to retire a debt issue.
A new common stock issue is sold and equipment purchased.
Question No: 9 -- Please choose one
Which of the following refers to the value at which an asset is carried on a balance sheet?
Book Value -
Market Value
Fair Value
Liquidation Value
Question No: 10 -- Please choose one
Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount you r account will have at the end the end of four years?
Rs.9,624.
Rs.10,208.
Rs.9,728. -
Rs.10,880
.
Question No: 11 -- Please choose one
What approximate annual interest rate would you have to earn in ord er to double your money in six years? (please choose the nearest figure)
16 percent
7 percent
10 percent
12 percent -
Question No: 12 -- Please choose one
If you invest Rs.400 today in a savings account paying 8 percent inte rest per year, how much will you have in the account at the end of three years if the interest is compounded annually?
Rs.325
Rs.1,299
Rs.504 -
Rs.609
Question No: 13 -- Please choose one

**The present value of Rs.100 per year received for 10 years discounte
d at 8 percent is closest to which of the following amounts?**
Rs.177.
Rs.362.
Rs.425.
Rs.671. -
Question No: 14 -- Please choose one
**When the market's required rate of return for a particular bond is mu
ch less than its coupon rate, the bond will be selling at which one of the
following?**
At premium. -
At discount.
Cannot be determined without more information.
At face value.
Question No: 15 -- Please choose one
**If a bond sells at a high premium, then which of the following relatio
nships hold true?(P0 represents the price of a bond and YTM is the bond's
yield to maturity.)**
P0 < par and YTM > the coupon rate.
P0 > par and YTM > the coupon rate.
P0 > par and YTM < the coupon rate. -
P0 < par and YTM < the coupon rate.
Question No: 16 -- Please choose one
**An investor would be exposed to which of the following risks, if he
may have to sell a bond prior to maturity and interest rates have risen
since the bond was purchased?**
The coupon effect risk.
Interest rate risk. -
Inflation risk.
Unique risk
Question No: 17 -- Please choose one
Which of the following is reflected by the price of a share of common stock?
Earnings after tax divided by the number of shares outstanding.
The board of directors' assessment of the intrinsic value of the firm.
The book value of the firm's assets less the book value of its liabilities.
The market's evaluation of a firm's present and future performance -
Question No: 18 -- Please choose one
**You are considering buying common stock in Grow On, Inc. The firm
yesterday paid a dividend of $7.80. You have projected that dividends will
grow at a rate of 9.0% per year indefinitely. If you
want an annual return of 24.0%, what is the most you should pay for
the stock now?**
$52.00
$56.68 -
$32.50
$35.43

Question No: 19 -- Please choose one
A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?
14%
13% -
12%
10%
Question No: 20 -- Please choose one
Which one of the following costs should be ignored, while evaluating the financial viability of a project?
Initial cost
Equipment cost
Cost of capital
Sunk cost -
Question No: 21 -- Please choose one
When faced with mutually exclusive option, which project should be accepted under the 'Payback Method'?
The one with the longest payback period.
The one with the shortest Payback period.
It doesn't matter because the payback method is not theoretically correct. -
None of the given options.
Question No: 22 -- Please choose one
Which of the following capital budgeting methods states the project re turn as a percentage?
Payback period
Net present value
Internal Rate of Return -
None of the given options
Question No: 23 -- Please choose one
Which of the following terms refers to the process of systematic inve tigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?
Sensitivity Analysis -
Fundamental Analysis
Technical Analysis
Trend Analysis
Question No: 24 -- Please choose one
A firm with 60% of sales going to variable costs, $1.5 million fixed costs, and $500,000 depreciation would show what accounting profit with sales of $3 million?
(Ignore taxes)
Zero loss
$370,000 loss
$666,667 loss

$800,000 loss-
Question No: 25 -- Please choose one
Which of the following best illustrates the problem imposed by capital rationing?
Accepting projects with the highest NPVs first
Accepting projects with the highest IRRs first
Bypassing projects that have positive NPVs -
Bypassing projects that have positive IRRs
Question No: 26 -- Please choose one
Which of the following statements applies to Security Market Line (SML)?
Security Market Line (SML) shows the relationship between expected rate of return and required rate of return of a security.
Security Market Line (SML) shows the relationship between Beta and market value of a security.
Security Market Line (SML) shows the relationship between required rate of return and beta coefficient of a security. -
Security Market Line (SML) shows the relationship between Market value and face value of a security.
Question No: 27 -- Please choose one
Which of the following refers to a stock issuance process where a co mpany offers its shares to a limited number of investor?
Initial Public Offering
Private Placement -
Direct Public Offering
Primary Offering
Question No: 28 -- Please choose one
A Pure Play method of selecting a discount rate is most suitable in which of the following situations?
When the intended investment project has a Non-conventional stream of cash flows
When the intended investment project is a replacement project
When the intended investment project belongs to industry other than the firms operating in-
When the intended investment project has a conventional stream of cash flows
Question No: 29 -- Please choose one
Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?
Stock Dividend -
Cum Dividend
Ex Dividend
Extra Dividend
Question No: 30 -- Please choose one
Which of the following transactions would occur in a primary financial market?
Initial public offering -
Buying mutual funds certificates
Selling old shares

Buying bonds issued in previous year
Question No: 31 (Marks: 5)
Differentiate between a bond's Coupon rate and its Yield to Maturity?
Question No: 32 (Marks: 10)
Following table shows stock market and risk free rate of return betwe
en from year 2003 to year 2007.
Year
Stock market Rate of Return
Risk free rate of return Risk
premium average risk premium
2003
31.29 5.26 26
.03
2004
23.43 4.86 1
8.75
2005
23.56 4.68 18.88
2006
- 10.89 5.89 -
16.78
2007
-10.97 3.83 -
14.76
32
.12
Referring to the above table, calculate the following:
1) What was the risk premium on common stock in each year?
2) What was the average risk premium?
3) What was the standard deviation of the risk premium?