Fin722 Finalterm paper 2013

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5 Marks questions:

- A company is considering to take the loan of Rs.5 million on which it has to pay semiannual interest at KIBOR plus 1.5%. Company intends to enter into an option against rise in interest rates by buying a CAP at a strike rate of 8%.

There will be two expiry dates within the agreement:

Expiry	Six month KIBOR at expiry	Period
30 - June Year 1	9%	July - Dec. Year 1
31 - Dec. Year 1	6%	Jan - June Year 2

Required:
1. At which expiry date option will be exercised and why?
2. Calculate cash payment if the option is exercised.

- Levine Sons is considering a project in a diversified industry. Current beta is 2 whereas beta of new industry is 1.5 with debt to equity ratio of 40:60. Find equity beta by using pure play method if company wishes to maintain 30: 70 debt to equity ratio, assume tax rate is 35%.

- What is factoring how its help the organization in collection of the A/R

- Explain the foreign rate exposure.

3 Marks questions:

- Define tick with example
- Calculate EAR for 7% interest compounded monthly
- Enlist the anti takeover measures
- Is there automatically balance of payment in fix foreign rate if no than why give reasons.