

Quiz 02
Spring Semester 2009
Corporate Finance FIN622

Student ID/ Login ID:
Student Name:

Marks 20=1x20

Please read the following instructions carefully before attempting Quiz

- This Quiz covers lesson no. 11 - 19
- **Due date of Quiz no 02 is April 10, 2009. It means that you can submit your solution file till 12 O'clock mid night 11/04/2009**
- All given instructions will be considered during checking of quiz. So, *must* consider all instructions carefully.
- To attempt a quiz, students **MUST** submit their solution files (word documents) in the following format.

Question #	Correct Options
1	e.g C
2	A
3	B

- Quiz file must be in Word document, all other would be marked zero.
- Give the answer according to question
- Use only the **black** font color
- Don't rely only on handouts, read recommended books as well
- Avoid choosing more than one option
- Make sure that you upload the solution before the due date. No solution file will be accepted through E-mail after the due date
- Cheating or copying of solution is strictly prohibited; No credit will be given to copied Quiz
- Once you upload the quiz on LMS, it will not be replaced under any condition

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Choose the correct/best option from given MCQs and put your answer in tabular form as drawn above.

1. Which of the following statements is **TRUE** regarding Profitability Index?
 - a. It ignores time value of money
 - b. It ignores return on investment
 - c. It ignores future cash flows
 - d. It ignores the scale of investment

2. Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?
 - a. Sensitivity Analysis
 - b. Fundamental Analysis
 - c. Technical Analysis
 - d. Trend Analysis

3. Holding everything else constant, increasing fixed costs _____ the firm's break-even point.
 - a. Decreases
 - b. Increases
 - c. Increases the covariance of
 - d. Does not affect

4. A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?
 - a. 2,500
 - b. 1,500
 - c. 5,000
 - d. 7,500

5. If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?
 - a. Fixed costs should be traded for variable costs
 - b. Variable costs should be traded for fixed costs
 - c. The project should not be undertaken
 - d. Additional marketing analysis may be beneficial before proceeding

6. Which of the following *best* illustrates the problem imposed by capital rationing?
 - a. Bypassing projects that have positive NPVs
 - b. Accepting projects with the highest NPVs first
 - c. Accepting projects with the highest IRRs first
 - d. Bypassing projects that have positive IRRs

7. Which of the following may be a major reason for hard capital rationing?
 - a. Dilution of earning per share (EPS)
 - b. High interest rate
 - c. High interest expense
 - d. Company own policies

8. The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.
 - a. Degree of profit leverage
 - b. Degree of operating leverage
 - c. Degree of total leverage
 - d. Degree of financial leverage

9. Which of the following is a major limitation of Linear Programming Technique of capital projects selection?
 - a. Time value of money is not considered
 - b. Ignores the relative size of the Investment
 - c. Project cash flows are ignored
 - d. Project profitability is ignored

10. Which of the following methods would be most suitable for selecting capital project(s) in case of multi-period capital rationing?
 - a. Simple payback period
 - b. Linear Programming
 - c. Discounted payback period
 - d. Multiple Internal Rate of Return

11. What is the main purpose of constructing a portfolio of financial assets?
 - a. To maximize risk and minimize the return
 - b. To maximize the return and minimize the risk
 - c. To minimize the risk and minimize the return
 - d. To minimize the return and minimize the risk

12. Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on the stock?
- 2%
 - 3%
 - 4%
 - 5%
13. Which of the following measures systematic risk of a firm's common stock?
- CAPM
 - Beta
 - MM-Model
 - SML
14. Which of the following is known as market portfolio?
- A portfolio consists of all risk free securities available in the market
 - A portfolio consists of all securities available in the market
 - A portfolio consists of securities of the same industry
 - A portfolio consists of all aggressive securities available in the market
15. A market portfolio has a beta equal to:
- 0
 - 1
 - 2
 - 3
16. Which of the following shows the reward to risk ratio of a security A?
- Expected return of A (r_A) – Risk free return / required return of A
 - Expected return of A (r_A) – Risk free return / Beta of A
 - Expected return of A (r_A) – Beta of A / Risk free return
 - Risk free return - Expected return of A (r_A)/ Beta of A
17. In which of the following conditions a stock is said to be overvalued?
- If the stock has market value less than the expected value
 - If the stock has market value equal to the expect value
 - If the stock has market value more than the expected value
 - If the stock has market value less than its intrinsic value

18. Which of the following statements applies to Dividend Growth Model?
- a. It is difficult to understand and use
 - b. It do not consider risk level of a security
 - c. It is used for non-listed companies
 - d. It is used for debt securities also
19. Which of the following is the principal advantage of high debt financing?
- a. Low bankruptcy costs
 - b. Tax savings
 - c. Minimum financial risk
 - d. Low financial leverage
20. Which of the following is a disadvantage of Capital Asset Pricing model?
- a. It consider market risk
 - b. It is based on past data
 - c. It can be used for listed companies
 - d. It can be used for non-listed companies

-: The End :-