

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	Question #	Correct Options
1	B	11	B
2	A	12	D
3	B	13	B
4	C	14	B
5	D	15	B
6	A	16	B
7	B	17	C
8	B	18	B
9	B	19	B
10	B	20	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

SOLUTION

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?
- Bypassing projects that have positive NPVs**
 - Accepting projects with the highest NPVs first
 - Accepting projects with the highest IRRs first
 - Bypassing projects that have positive IRRs
7. Which of the following may be a major reason for hard capital rationing?
- Dilution of earning per share (EPS)
 - High interest rate**
 - High interest expense
 - 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 _____.
- Degree of profit leverage
 - Degree of operating leverage**
 - Degree of total leverage
 - Degree of financial leverage
9. Which of the following is a major limitation of Linear Programming Technique of capital projects selection?
- Time value of money is not considered
 - Ignores the relative size of the Investment**
 - Project cash flows are ignored
 - 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?
- Simple payback period
 - Linear Programming**
 - Discounted payback period
 - Multiple Internal Rate of Return
11. What is the main purpose of constructing a portfolio of financial assets?
- To maximize risk and minimize the return
 - To maximize the return and minimize the risk**
 - 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?
- a. 2%
 - b. 3%
 - c. 4%
 - d. 5%**
13. Which of the following measures systematic risk of a firm's common stock?
- a. CAPM
 - b. Beta**
 - c. MM-Model
 - d. SML
14. Which of the following is known as market portfolio?
- a. A portfolio consists of all risk free securities available in the market
 - b. A portfolio consists of all securities available in the market**
 - c. A portfolio consists of securities of the same industry
 - d. A portfolio consists of all aggressive securities available in the market
15. A market portfolio has a beta equal to:
- a. 0
 - b. 1**
 - c. 2
 - d. 3
16. Which of the following shows the reward to risk ratio of a security A?
- a. Expected return of A (r_A) – Risk free return / required return of A
 - b. Expected return of A (r_A) – Risk free return / Beta of A**
 - c. Expected return of A (r_A) – Beta of A / Risk free return
 - d. 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?
- a. If the stock has market value less than the expected value
 - b. If the stock has market value equal to the expected value
 - c. If the stock has market value more than the expected value**
 - d. 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 :-