<table>
<thead>
<tr>
<th>Please read the following instructions carefully before attempting Quiz</th>
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<tbody>
<tr>
<td>• This Quiz covers Lecture 11-18</td>
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<td>• <strong>Due date for the quiz is 12 o'clock midnight April 10th, 2009</strong></td>
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<td>• All instruction will be considered during checking quiz. So, consider all these.</td>
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<td>• <strong>Students are required to submit the quiz on the given solution file only, ALL OTHERS WOULD BE MARKED ZERO.</strong></td>
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<td>• Quiz file must be in Word document, <strong>ALL OTHER FORMATS WOULD BE MARKED ZERO.</strong></td>
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<td>• Give the answer according to question</td>
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<td>• Use only the black font color</td>
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<td>• Don’t rely only on handouts, use recommended books as well</td>
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<td>• Avoid choosing more than one option.</td>
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<td>• <strong>Make sure that you upload the solution before due date. No solution will be accepted through E-mail after the due date.</strong></td>
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<td>• Cheating or copying of solution is strictly prohibited; No credit will be given to copied assignment.</td>
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<td>• Once you upload the quiz on LMS, it will not be replaced under any condition.</td>
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ANSWER SHEET TO SOLVE THE QUIZ

- Copy the following sheet and solve your quiz by providing answer in the given column.
- In the “Selected Option” column, write down only the option number (e.g. a, b, c or d) which you consider is the correct one against each question number.
- *Upload only the answer sheet on VULMS; DO NOT upload the whole quiz.*

<table>
<thead>
<tr>
<th>Question Number</th>
<th>Selected Option</th>
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Student ID/Login ID: ________________________________

Student Name: ________________________________
Choose the correct option among the choices given below:

1. Why net present value is the most important criteria for selecting the project in capital budgeting?
   a. Because it has a direct link with the shareholders dividends maximization
   b. Because it helps in quick judgment regarding the investment in real assets
   c. Because we have a simple formula to calculate the cash flows
   d. Because it has direct link with shareholders wealth maximization

2. In which of the following situations you can expect multiple answers of IRR?
   a. More than one sign change taking place in cash flow diagram
   b. There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
   c. During the life of project if you have any net cash outflow
   d. All of the given options

3. 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?
   a. Cash budgeting
   b. Capital budgeting
   c. Capital expenditure
   d. Capital rationing

4. Who is responsible for the decisions relating capital budgeting and capital rationing?
   a. Chief executive officer
   b. Junior management
   c. Division heads
   d. All of the given option
5. 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?

   a. Indenture  
   b. Debenture  
   c. Bond  
   d. Bond trustee

6. _________ is a high-risk, high-yield bond rated below investment grade; while a/ an _________ bond has its interest payment contingent on sufficient earnings of the firm.

   a. A junk bond; income  
   b. A subordinated debenture; mortgage  
   c. A debenture; subordinated debenture  
   d. An income bond; mortgage

7. _________ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt; while a/an _________ bond issue is secured by the issuer's property.

   a. A subordinated debenture; mortgage  
   b. A debenture; subordinated debenture  
   c. A junk bond; income  
   d. An income bond; junk

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

   a. Liquid assets of the business  
   b. Fixed assets of the business  
   c. Long term assets of the business  
   d. Real assets of the business
9. The value of a bond is directly derived from which of the following?
   a. Cash flows
   b. Coupon receipts
   c. Par recovery at maturity
   d. All of the given options

10. Which of the following is not the present value of the bond?
    a. Intrinsic value
    b. Fair price
    c. Theoretical price
    d. Market price

11. The current yield on a bond is equal to ________.
    a. The yield to maturity
    b. Annual interest divided by the par value
    c. Annual interest divided by the current market price
    d. The internal rate of return

12. 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 is?
    a. 10.45%
    b. 10.95%
    c. 10.65%
    d. 10.52%

13. Which of the following is a characteristic of a coupon bond?
    a. Does not pay interest on a regular basis but pays a lump sum at maturity
    b. Can always be converted into a specific number of shares of common stock in the issuing company
    c. Pays interest on a regular basis (typically every six months)
    d. Always sells at par
14. Which of the following value of the shares changes with investor’s perception about the company’s future and supply and demand situation? (Comprehension)

   a. Par value
   b. Intrinsic value
   c. Market value
   d. Face value

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

   a. Fundamental analysis
   b. Underlying real asset
   c. Supply and demand of securities in the market
   d. All of the given options

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

   a. Liquidation value per share
   b. Book value per share
   c. Market value per share
   d. None of the above

17. 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.

   a. 4.8%
   b. 6.0%
   c. 7.2%
   d. 3.0%
18. High Tech Chip Company is expected to have EPS in the coming year of Rs. 2.50. The expected ROE is 12.5%. An appropriate required return on the stock is 11%. If the firm has a plowback ratio of 70%, what would be the growth rate of dividends?

a. 6.25%

b. 8.75%

c. 6.60%

d. 7.50%

19. In the dividend discount model, _______ which of the following are NOT incorporated into the discount rate?

a. Real risk-free rate

b. Risk premium for stocks

c. Return on assets

d. Expected inflation rate

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

a. Tangible assets

b. Fixed assets

c. Intangible assets

d. Real assets