Texas A&M International University

FIN 3310 SP19 Exam 3 2019-04-30

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Answers 1 - 15

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Answers 31 - 40

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1. Suppose you will receive \$5300 in 6.5 years. If the present value is \$4262.06, What discount rate does this imply?
   (a) 3.41%
   (b) 6.82%
   (c) 1.7%
   (d) 4.26%
   (e) 1.69%

2. Find the internal rate of return of a project with the following cash flows, starting at time 0: \$-1300, 475, 375, 250, 350, 550.
   (a) 16.36%
   (b) 16.61%
   (c) 16.86%
   (d) 16.11%
   (e) 17.11%

3. Suppose you will receive \$3200 in 5 years. If the discount rate is 2.92% per year, What is the present value of that cash flow?
   (a) \$3109.21
   (b) \$2985.55
   (c) \$2771.09
   (d) \$3071.33
   (e) \$2692.47

4. PG *is about to pay* a dividend of \$5.02 per share. The required rate of return is 6.48%. What is the current share price of PG if dividends are not expected to grow in the future?
   (a) \$77.47
   (b) \$78.49
   (c) \$72.45
   (d) \$41.24
   (e) \$82.49

5. Assuming the discount rate is 10.98%, find the net present value of a project with the following cash flows, starting at time 0: \$-1100, 500, 400, 375, 475, 200
   (a) \$1064.11
   (b) \$657.07
   (c) \$381.56
   (d) \$850
   (e) \$281.56

6. Assuming the discount rate is 12.54%, find the present value of a series of cash flows that pays \$350 at the end of every period for 25 periods. The first cash flow is at time 1.
   (a) \$2791.07
   (b) \$2845.49
   (c) \$2645.49
   (d) \$8750
   (e) \$2745.49

7. The primary goal of financial management is to maximize the ...

   (a) Value of the firm
   (b) Net income, according to GAAP/IFRS
   (c) Book value of shareholder equity
   (d) Number of shares outstanding
   (e) Market share

8. You have the following information from a firm's income statement (all numbers are in million dollars): net sales = $9177, cost of goods sold = $5047, selling and general administrative expenses = $1089, depreciation & amortization = $1228, interest expenses = $635, taxes = $294. What is this firm's Operating Cash Flow (OCF)?

   (a) $1813
   (b) $2841
   (c) $884
   (d) $3041
   (e) $2747

9. The times interest earned ratio is used to evaluate the ...

   (a) Relationship between the firm's cash balance and its current liabilities
   (b) Ability of a firm to pay the interest on its debt
   (c) Liquidity of a firm's assets
   (d) Length of time that a firm can pay its bills with no additional cash
   (e) Speed at which the firm generates cash

10. Assuming the discount rate is 7.28%, find the net present value of a project with the following cash flows, starting at time 0: $-1000, 200, 425, 300, 400, 275

    (a) $600
    (b) $494.19
    (c) $716.48
    (d) $294.19
    (e) $491.42

11. Suppose a firm has a profit margin of 19.65%, an annual total asset turnover of 1.97, and it's debt-to-equity ratio is 1.5. What is the firm's annual return on equity (ROE)?

    (a) 38.71%
    (b) 96.78%
    (c) 120.97%
    (d) 58.07%
    (e) 82.26%

12. What type of firm faces double taxation?

    (a) General partnership
    (b) Proprietorship
    (c) Limited partnership
    (d) S Corporation
    (e) C Corporation

13. If financial markets *efficiently* price information about *debt*, that means . . .
    (a) You *cannot* beat the market by using information about a firm's debt levels
    (b) You cannot beat the market, regardless of what information you have
    (c) You *can* beat the market by using information about a firm's debt levels
    (d) You cannot beat the market by using publicly available information about the firm
    (e) You can beat the market, but only using information from past prices

14. Shankar, Inc. has an inventory turnover of 10. This means the firm:
    (a) Sells its inventory by granting customers 10 days credit.
    (b) Buys 10 days of inventory with each order.
    (c) Only stocks its inventory every 10 days.
    (d) Sells its entire inventory every 10 days.
    (e) Sells its inventory an average of 10 times each year.

15. Which of the following is an example of a primary market?
    (a) An investor selling her bonds to another investor
    (b) New York Stock Exchange
    (c) The London Stock Exchange
    (d) A firm issuing stock to shareholders
    (e) Chicago Board Options Exchange

16. YYY's preferred stock is trading at $22.95 and paying dividends of $2.27 per year. What is the required return on this stock?
    (a) 11.89%
    (b) Not enough information
    (c) 14.84%
    (d) 9.89%
    (e) 7.42%

17. In estimating the net investment, an outlay that has already been made, and which cost cannot be recovered, is known as a . . .
    (a) sunk cost
    (b) fixed cost
    (c) expansion cost
    (d) opportunity cost
    (e) cash outflow

18. A bond trading at par has a coupon rate of 4.26%. What is that bond's yield to maturity?
    (a) $2.13
    (b) $8.52
    (c) $5.26
    (d) $4.26
    (e) Not enough information

19. Which of the following cash flows should *NOT* be included when calculating the NPV of the decision (to be made today) to produce a new car model?
    (a) The salvage value of plant and equipment at the end of the projects life
    (b) The reduction in the sales of the company's existing car model because of introducing the new line
    (c) The effect of equipment depreciation on taxes
    (d) The cost of research and development during the previous three years
    (e) The expenditure on new plant and equipment needed for the new model

20. If the initial cash flow is negative and all subsequent cash flows are positive, one should accept projects whose IRR is ____ than the required rate of return.
    (a) higher
    (b) lower
    (c) Not enough information
    (d) Doesn't matter
    (e) the same

21. If a vanilla corporate bond has a 4.56% coupon rate, what is the semiannual coupon?
    (a) \$4.56
    (b) \$2.28
    (c) Not enough information
    (d) \$9.12
    (e) \$22.8

22. American Depository Receipts (ADRs) are used to ...
    (a) Record transactions in eurodollars or in foreign currencies
    (b) Control bank accounts in US banks from abroad
    (c) Trade shares of US shares from a foreign exchange
    (d) Control bank accounts in foreign banks from the US
    (e) Trade shares of foreign companies that do not trade on a US exchange

23. Which of the following is the most junior in bankruptcy proceedings?
    (a) Common stock
    (b) Unpaid wages
    (c) Preferred stock
    (d) Long-term bonds
    (e) Commercial paper

24. Analysts have forecasted IDM's dividend next year to be \$4.65 per share. The required rate of return is 9.87%. What is the current share price of IDM if dividends are expected to grow at 0.97% per year in the future?
    (a) \$47.11
    (b) \$26.12
    (c) \$50.11
    (d) \$50.25
    (e) \$52.25

25. If a net present value analysis for a normal project with standard cash flows gives an NPV lower than zero, an internal rate of return calculation on the same project would yield an internal rate of return (IRR) _____ the required rate of return for the firm.
    (a) Not enough information
    (b) greater than
    (c) equal to
    (d) There will be multiple IRR values
    (e) less than

26. If a stock portfolio is well diversified, then the portfolio variance . . .
    (a) Not enough information
    (b) must be equal to or greater than the variance of the least risky stock in the portfolio
    (c) will be a weighted average of the variances of the individual securities in the portfolio
    (d) will equal the variance of the most volatile stock in the portfolio
    (e) can be less than the variance of the least risky stock in the portfolio

27. A savings account is . . .
    (a) An account that earns interest but has a limited number of transactions per month
    (b) An account that allows account holders to treat it like cash
    (c) An account that you cannot withdraw from until it reaches maturity
    (d) An account for trading options and other derivatives
    (e) An account that allows you to trade stocks to save for retirement

28. Which of the following organizations insures the accounts at brokerages to protect against the brokerage's bankruptcy?
    (a) FDIC
    (b) NCUA
    (c) FINRA
    (d) SIPC
    (e) SEC

29. If a firm has a beta = 1.03, the risk-free rate = 3.09%, and the expected return on the market is 8.77%, what is the firm's expected return?
    (a) 12.12%
    (b) 9.67%
    (c) 9.48%
    (d) 8.94%
    (e) 7.79%

30. Suppose a firm's bonds have a yield of 3.34%, the required return on preferred stock is 6.74%, and its required return on common stock is 10.07%. If these sources of capital are weighted 0.34, 0.18, and 0.48 respectively, and the firm's tax rate is 23.87%, what is the firm's weighted-average cost of capital?
    (a) 6.22%
    (b) 7.32%
    (c) 6.91%
    (d) 7.18%
    (e) 6.72%

31. Suppose three stocks in a portfolio have betas of 1.07, 1.63, and 0.99. If those stocks are weighted 0.14, 0.09, and 0.77 respectively, what is the portfolio's expected return?
    (a) 0.98
    (b) 1.23
    (c) 1.22
    (d) 1.06
    (e) 33.33
32. Suppose a firm's bonds have a yield of 4.38%, the required return on preferred stock is 7.97%, and its required return on common stock is 7.45%. If these sources of capital are weighted 0.35, 0.35, and 0.3 respectively, and the firm's tax rate is 22.09%, what is the firm's weighted-average cost of capital?
    (a) 6.84%
    (b) 6.6%
    (c) 6.56%
    (d) 6.59%
    (e) 6.22%
33. Suppose three stocks in a portfolio have expected returns of 8.95%, 10.15%, and 7.63%. If those stocks are weighted 0.37, 0.24, and 0.39 respectively, what is the portfolio's expected return?
    (a) 8.72%
    (b) 33.33%
    (c) 7.07%
    (d) 8.91%
    (e) 10.2%
34. When is it appropriate to use a firm's weighted average cost of capital as the discount rate?
    (a) To discount cash flows generated by each and every specific project the firm is undertaking
    (b) To discount cash flows generated by each division of the firm
    (c) To discount cash flows from projects that are riskier than the firm as a whole
    (d) To discount cash flows generated by a project that has the similar risk of the overall firm
    (e) To discount earnings generated by the firm
35. According to the Pecking Order Theory of capital structure, what is the best source of financing for projects?
    (a) Short-term debt
    (b) Issuing new preferred stock
    (c) Issuing new common stock
    (d) Retained earnings
    (e) Bonds
36. If a firm has a beta = 2.3, the risk-free rate = 3.21%, and the expected return on the market is 7.64%, what is the firm's expected return?
    (a) 14.69%
    (b) 13.4%
    (c) 11.86%
    (d) 12.6%
    (e) 20.78%

37. If a stock is going to pay a dividend soon, what is the last day you could buy that stock and receive the dividend?
    (a) The payment day
    (b) The holder-of-record day
    (c) The announcement day
    (d) The ex-dividend day
    (e) The day before the ex-dividend day

38. The differences between share repurchases and dividends are mostly due to . . .
    (a) Dividends being better because you don't have to sell shares
    (b) Taxes and future earnings
    (c) Transaction costs and future earnings
    (d) Share repurchases being better because they're more flexible
    (e) Taxes and transaction costs

39. Modigliani & Miller, when discussing capital structure, argued that . . .
    (a) equity is better than debt, because of bankruptcy
    (b) firms find a trade-off between the tax benefits and bankruptcy costs of debt
    (c) firms use debt in order of cost, starting with the cheapest source of capital
    (d) firms use debt to signal their future prospects to the market
    (e) capital structure is irrelevant in the real world because of homemade leverage

40. Suppose a firm's bonds have a yield of 2.56% and its required return on common stock is 8.4%. If these sources of capital are weighted 0.12, and 0.88 respectively, and the firm's tax rate is 24.55%, what is the firm's weighted-average cost of capital?
    (a) 7.62%
    (b) 6.86%
    (c) 7.7%
    (d) 7.16%
    (e) 5.48%

Short Answer Problem

Show your work for partial credit

1. If a project is expected to have annual sales of \$1000, variable costs of \$225, fixed costs of \$150, and an annual depreciation expense of \$350, what is the project's net present value assuming depreciation was straight-line to zero over seven years, the appropriate discount rate is 8%, and the tax rate is 21%? Assume that the project ends when the initial investment has a book value of zero.

2. In problem 1 above, what would the project be worth if the initial investment was depreciated to half its original value and then sold at book value after seven years?