Finance and Banking Dept. First Semester 2017/2018 Second Exam FINN 230 46.5

Instructor

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Section:		

MULTIPLE CHOICE

1.	DBA
2.	080
3.	A
4.	B
5.	0
6.	A/C
7.	A
8.	A
9.	9
10.	0

- 1) Which of the following statements is most correct?
 - a) The NPV method assumes that cash flows will be reinvested at the cost of capital, while the IRR method assumes reinvestment at the IRR.
 - b) The NPV method assumes that cash flows will be reinvested at the risk-free rate, while the IRR method assumes reinvestment at the IRR.
 - c) The NPV method assumes that cash flows will be reinvested at the cost of capital, while the IRR method assumes reinvestment at the risk-free rate.
 - d) The NPV method does not consider the inflation premium.
- 2) A major disadvantage of the payback period is that it
 - a) Is useless as a risk indicator.
 - b) Ignores cash flows beyond the payback period.
 - c) Does not directly account for the time value of money.
 - d) Statements b and c are correct.
- 3) Which of the following statements is most correct?
 - a) if a project's internal rate of return (iRR) exceeds the cost of capital, then the project's net present value (NPV) must be positive.
 - b) If Project A has a higher IRR than Project B, then Project A must also have a higher NPV.
 - c) The IRR calculation implicitly assumes that all cash flows are reinvested at a rate of return equal to the cost of capital.
 - d) Statements a and c are correct
- 4) When company has capital rationing this means
 - a) Unlimited capital
 - b) Limited capital
 - c) Independent projects
 - d) Mutually inclusive
- 5) The discount rate that forces a project's NPV to equal zero.
 - 1RR
 - b) PI
 - c) NPV
 - d) Capital budget
- 6) A capital investment proposal should be accepted if its NPV is
 - a) Positive
 - b) Negative
 - c) Zero
- 7.) If two mutually exclusive projects are being evaluated and one project has a higher NPV while the other project has a higher IRR, the project with the higher should be preferred.
 - (1) NPV
 - D) IRR
 - c) Both
 - 4) Not relevant



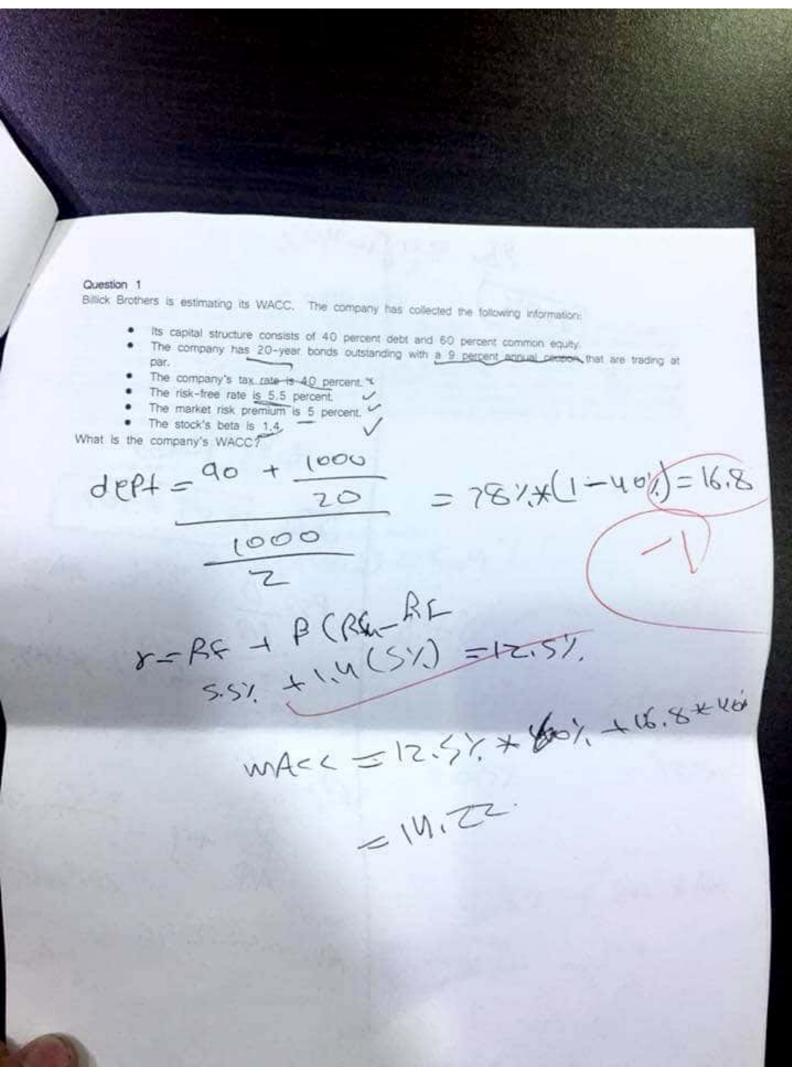
- 8) ----expenditures are the one that is related to the core of the business and is less than one year
 - a) Operating
 - b) Investing
 - c) Capital
 - d) Financing
- 9) You have a stock with D₁ 2\$ and its price is 30\$ if the cost of equity is 10% what is the growth.

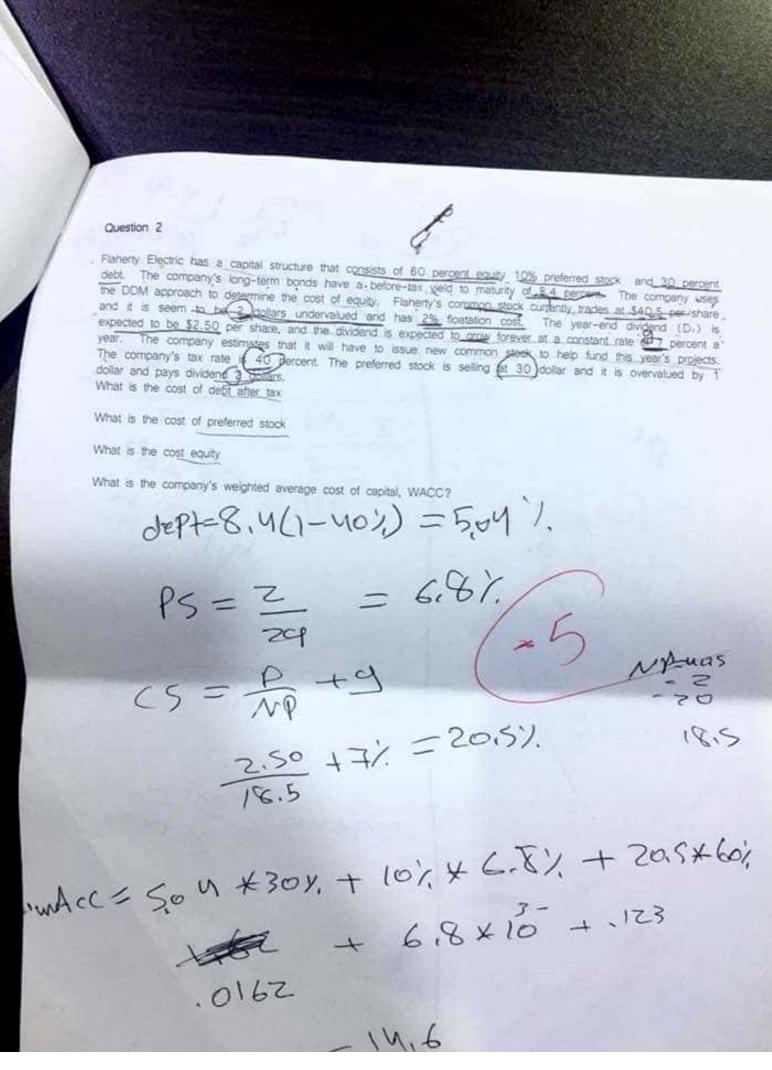
3.33%

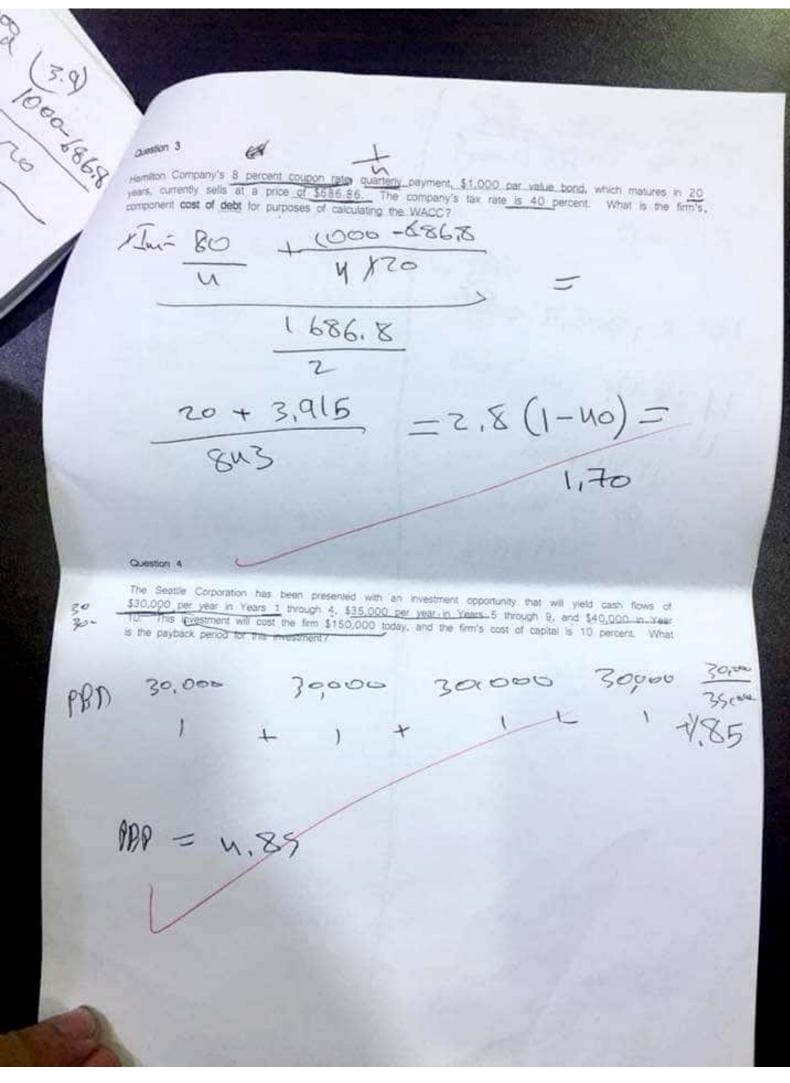
- h) -----
- c) 13.33%
- d) Not enough information
- 10) ----is cash inflow Invested Capital + Weighted Average Cost of Capital (WACC)
 - a) NPV
 - b) APR



EVA







auestion 5

Caughlin Motors is considering a project with the following expected cash flows:

Project Cash Flow
-\$700 million
200 million
370 million
225 million 700 million

The project's WACC is 10 percent. What is the project's payback?
NPV
Pt

$$\frac{200}{(1+10)!} + \frac{370}{(1+10)!} + \frac{275}{(1+10)!} + \frac{700}{(1+10)!} + \frac{181.8}{(1+10)!} + \frac{370}{(1+10)!} + \frac{181.8}{(1+10)!} + \frac{370}{(1+10)!} + \frac{181.8}{(1+10)!} + \frac{370}{(1+10)!} + \frac{181.8}{(1+10)!} + \frac{370}{(1+10)!} + \frac{181.8}{(1+10)!} +$$