

NAME: _____

PLEASE ANSWER THE FOLLOWING MULTIPLE CHOICE QUESTIONS:

1. HOW MUCH CAN BE ACCUMULATED FOR RETIREMENT IF \$2,000 IS DEPOSITED ANNUALLY, BEGINNING ONE YEAR FROM TODAY, AND THE ACCOUNT EARNS 9% INTEREST COMPOUNDED ANNUALLY FOR 40 YEARS? FV
 A) \$ 87,200.00
 B) \$ 675,764.89
 C) \$ 736,583.73
 D) \$ 802,876.27

2. AN ASSET IS PURCHASED FOR \$120,000. IT IS EXPECTED TO PROVIDE AN ADDITIONAL \$28,000 OF ANNUAL NET CASH INFLOWS. THE ASSETS HAS A 10 YEAR LIFE AND AN EXPECTED SALAVGE VALUE OF \$12,000. THE HURDLE RATE IS 10%. THE PV OF AN ANNUNITY FACTOR OF 10% FOR 10 YEARS IS 6.1446 AND PV OF \$1 DISCOUNTED FOR 10 YEARS OF 10% IS 0.3855. GIVEN THE DATA PROVIDED, THE NPV OF THE INVESTMENT IS APPROXIMATELY.
 A) \$33,450
 B) \$56,675
 C) \$47,050
 D) \$0

3. WHAT IS THE NPV OF A PROJECT THAT COSTS \$100,000 AND RETURNS \$45,000 ANNUALLY FOR THREE YEARS IF THE OPPORTUNITY COST OF CAPITAL IS 14%?
 A) \$ 3,397.57
 B) \$ 4,473.44
 C) \$ 16,100.00
 D) \$ 35,000.00

4. FOR A PROFITABLE FIRM IN THE 35% MARGINAL TAX BRACKET WITH \$100,000 OF ANNUAL DEPRECIATION EXPENSE, THE DEPRECIATION TAX SHIELD WOULD BE:
 A) \$10,500
 B) \$30,000
 C) \$35,000
 D) \$65,000

5. WHAT DIVIDEND IS PAID ON PREFERRED STOCK IF INVESTORS REQUIRE A 9% RATE OF RETURN AND THE STOCK HAS A MARKET VALUE OF \$54.00 PER SHARE AND A BOOK VALUE OF \$50.00 PER SHARE?
 A) \$2.92
 B) \$4.50
 C) \$4.68
 D) \$4.86

6. WINTER CORPORATION EXPECTS TO BUY A MACHINE FOR \$126,000, WHICH WILL BE DEPRECIATED OVER AN 8-YEAR PERIOD ON A STRAIGHT-LINE BASIS WITH NO SALAVGE VALUE. THE MACHINE IS EXPECTED TO GENERATE A NET CASH FLOW OF \$36,000. WHAT IS THE PAYBACK PERIOD?
- A) 3.0 YEARS
 - B) 5.0 YEARS
 - C) 6.4 YEARS
 - D) 3.5 YEARS
7. IF A STOCK'S P/E RATIO IS 13.5 AT A TIME WHEN EARNINGS ARE \$3 PER YEAR, WHAT IS THE STOCK'S CURRENT PRICE?
- A) \$ 4.50
 - B) \$ 18.00
 - C) \$ 22.22
 - D) \$ 40.50
8. HOW MUCH SHOULD YOU PAY FOR A \$1,000 BOND WITH 10% COUPON, ANNUAL PAYMENTS, AND FIVE YEARS TO MATURITY IF THE INTEREST RATE IS 12%?
- A) \$ 927.90
 - B) \$ 981.40
 - C) \$ 1000.00
 - D) \$ 1075.82
9. THE COMPANY COST OF CAPITAL FOR A FIRM WITH A 60/40 DEBT/EQUITY SPLIT, 8% COSST OF DEBT, 15% COST OF EQUITY, AND A 35% TAX RATE WOULD BE:
- A) 7.02%
 - B) 9.12%
 - C) 10.80%
 - D) 13.80%
10. HOW MUCH INTEREST IS EARNED IN THE THIRD YEAR ON A \$1,000 DEPOSIT THAT EARNS 7% INTEREST COMPOUNDED ANNUALLY?
- A) \$70.00
 - B) \$80.14
 - C) \$105.62
 - D) \$140.00