**Question 1:**

**A. A firm has $1.2 million in current assets and $1.0 million in current liabilities. If it uses $.5 million of cash to pay off some of its accounts payable, what will happen (amount increase or decrease) to the current ratio?**

**What happens to net working capital?**

**B. A firm uses cash on hand to pay for additional inventories. What will happen to the current ratio?**

**What will happen to the quick ratio?**

**Question 2:**

**A. Receivables. Chik’s Chickens has average accounts receivable of $6,333. Sales for the year were $9,800. What is its average collection period?**

**B. Inventory. Salad Daze maintains an inventory of produce worth $400. Its total bill for produce over the course of the year was $73,000. How old on average is the lettuce it serves its customers?**

**Question 3:**

**Compensating Balances. A bank loan has a quoted annual rate of 6 percent. However, the borrower must maintain a balance of 25 percent of the amount of the loan, and the balance does not earn any interest.**

**A. What is the effective rate of interest if the loan is for 1 year and is paid off in one payment at the end of the year?**

**B. What is the effective rate of interest if the loan is for 1 month?**

**Question 4:**

**Sanyo produces audio and video consumer goods and exports a large fraction of its output to the United States under its own name and the Fisher brand name. It prices its products in yen, meaning that it seeks to maintain a fixed price in terms of yen. Suppose the yen moves from ¥103.155/$ to ¥97/$. What risk does Sanyo face?**

**How can it reduce its exposure?**

**Question 5:**

**Bank of America acquired Countrywide Mortgage. Considering the expected or unexpected risks associated with the mortgage crisis and the bail out money, how do you think this acquisition impacted the organizations' shareholders? How do you feel this**

**acquisition impacted the consumers?**

**Question 6:**

**You are the capital budgeting analyst for XYZ company and has been asked to evaluate a proposal. The manager of the automotive division believes that replacing the robotics used on the heavy truck gear line will produce total benefits of $550,000 (in today's dollars) over the next 5 years. The existing robotics would produce benefits of $421,000 (also in today's dollars) over the same period. An initial cash investment of $220,000 would be required to install the new equipment. The manager estimates that the existing robotics can be sold for $73,000. Show how you will apply marginal analysis techniques to answer the following questions.**

**a. How much is the marginal benefit of the proposed new robotics?**

**b. How much is the marginal cost of the proposed new robotics?**

**c. How much is the net benefit of the proposed new robotics?**

**d. Should they replace the old robotics with the new one?**

**Question 7:**

**Calculate the future value of the single cash flow deposited today that will be available at the end of the deposit period if the interest is compounded annually at the rate specified below:**

**Single Cash Flow: $21,700**

**Interest Rate: 12% Period: 15 Years**