1. (Points: 2)

Simonyan Inc. forecasts a free cash flow of $40 million in Year 3, i.e., at t = 3, and it expects FCF to grow at a constant rate of 5% thereafter. If the weighted average cost of capital is 10% and the cost of equity is 15%, what is the horizon value, in millions at t = 3?

1. $882

2. $972

3. $1,021

4. $840

5. $926

Save Answer

2. (Points: 2)

GCC Corporation is planning to issue options to its key employees, and it is now discussing the terms to be set on those options. Which of the following actions would decrease the value of the options, other things held constant?

1. The exercise price of the option is increased.

2. GCC's stock price suddenly increases.

3. GCC's stock price becomes more risky (higher variance).

4. The Federal Reserve takes actions that increase the risk-free rate.

5. The life of the option is increased, i.e., the time until it expires is lengthened.

Save Answer

3. (Points: 2)

Blease Inc. has a capital budget of $625,000, and it wants to maintain a target capital structure of 60% debt and 40% equity. The company forecasts a net income of $475,000. If it follows the residual dividend policy, what is its forecasted dividend payout ratio?

1. 40.61%

2. 49.74%

3. 42.75%

4. 47.37%

5. 45.00%

Save Answer

4. (Points: 2)

Suppose Leonard, Nixon, & Shull Corporation's projected free cash flow for next year is $100,000, and FCF is expected to grow at a constant rate of 6%. If the company's weighted average cost of capital is 11%, what is the value of its operations?

1. $1,900,000

2. $1,714,750

3. $1,805,000

4. $2,000,000

5. $2,100,000

Save Answer

5. (Points: 2)

Toombs Media Corp. recently completed a 3-for-1 stock split. Prior to the split, its stock sold for $150 per share. The firm's total market value was unchanged by the split. Other things held constant, what is the best estimate of the stock's post-split price?

1. $60.78

2. $57.88

3. $55.13

4. $50.00

5. $52.50

Save Answer

6. (Points: 2)

The current price of a stock is $50, the annual risk-free rate is 6%, and a 1-year call option with a strike price of $55 sells for $7.20. What is the value of a put option, assuming the same strike price and expiration date as for the call option?

1. $9.00

2. $7.71

3. $8.55

4. $8.12

5. $7.33

Save Answer

7. (Points: 2)

Leak Inc. forecasts the free cash flows (in millions) shown below. If the weighted average cost of capital is 11% and FCF is expected to grow at a rate of 5% after Year 2, what is the Year 0 value of operations, in millions? Assume that the ROIC is expected to remain constant in Year 2 and beyond (and do not make any half-year adjustments).

Year:

1

2

Free cash flow:

-$50

$100

1. $1,456

2. $1,770

3. $1,529

4. $1,686

5. $1,606

Save Answer

8. (Points: 2)

The current price of a stock is $22, and at the end of one year its price will be either $27 or $17. The annual risk-free rate is 6.0%, based on daily compounding. A 1-year call option on the stock, with an exercise price of $22, is available. Based on the binominal model, what is the option's value?

1. $2.99

2. $3.62

3. $2.70

4. $3.29

5. $2.43

Save Answer

9. (Points: 2)

Which of the following statements about dividend policies is correct?

1. One reason that companies tend to avoid stock repurchases is that dividend payments are taxed at a lower rate than gains on stock repurchases.

2. The clientele effect suggests that companies should follow a stable dividend policy.

3. Modigliani and Miller argue that investors prefer dividends to capital gains because dividends are more certain than capital gains. They call this the "bird-in-the hand" effect.

4. One key advantage of a residual dividend policy is that it enables a company to follow a stable dividend policy.

5. One advantage of dividend reinvestment plans is that they allow shareholders to avoid paying taxes on the dividends that they choose to reinvest.

Save Answer

10. (Points: 2)

Based on the corporate valuation model, the value of a company's operations is $1,200 million. The company's balance sheet shows $80 million in accounts receivable, $60 million in inventory, and $100 million in short-term investments that are unrelated to operations. The balance sheet also shows $90 million in accounts payable, $120 million in notes payable, $300 million in long-term debt, $50 million in preferred stock, $180 million in retained earnings, and $800 million in total common equity. If the company has 30 million shares of stock outstanding, what is the best estimate of the stock's price per share?

1. $33.48

2. $36.82

3. $27.67

4. $24.90

5. $30.43

Save Answer