Final Exam

1. The valuation of a financial asset is based on the concept of determining the present value.

T/F

1. The prices of financial assets are based on the expected value of future cash flows, ds rate and past dividends.

T/F

1. The market determined required rate of return is also called the discount rate.

T/F

1. In determining the cost of debt, yield and prices of outstanding bonds are used.

T/F

1. The cost of debt is equal to the current bond yield on bonds of similar risk class and adjusted for the corporate tax rate.

T/F

1. It is not unusual for corporate president, who deals with security analysts, to be as sensitive to after-tax income as to cash flow

T/F

1. Capital budgeting is primarily concerned with evaluating investment alternatives

T/F

1. We add depreciation to net income to arrive at a true earnings picture

T/F

1. The Payback method is basic to understand and places a heavy emphasis on liquidity.

T/F

1. The growth rate for the firm’s common stock is 7%. The firm’s preferred stock is paying an annual dividend of 3. What is the preferred stock price if the required rate is 8%?
2. An issue of common stocks most recent dividend is 1.75 its growth rate is 5.7 percent. What is its price if the market's rate of return is 7.7 percent?
3. An issue of common stock is selling for $57.20. The year end dividend is expected to be $2.52 assuming a constant growth rate of 4%. What is the required rate of return?

A 10.3%

B 10.1%

C 8.1%

D None of these

1. An issue of common stock is expected to pay a dividend of $5.15 at the end of the year. Its growth rate is equal to 6%. If the required rate of return is 10%. What is its current price?
2. If expected dividends grow 7% and appropriate discount rate is 9%. What is the value of stock with an expected dividend of 1.00

A 62.88

B 19.41

C 29.12

D 50.00

1. Assume a 6,500 investment and the following cash flows for alternatives

X Y

1 1000 1300

2 1800 2000

3 1700 1100

4 2000 1500

5 600

A X should be selected

B Y should be selected

C X & Y should be selected

D Neither should be selected

1. You buy a new piece of equipment for $7360, and you receive a cash flow of $1000 per 10 years. What is the internal rate of return?
2. You require an IRR of 14% to accept a project. If the project will yield $10,000 per year for 10 years, what is the maximum amount that you would be willing to invest in the project?   
   A. less than $50,000  
   B. more than $50,000 and less than $60,000  
   C. more than $60,000 and less than $70,000  
   D. more than $70,000
3. Stone Inc. is evaluating a project with an initial cost of 9,500 Cash inflows are expected to be 1500, 1500 and 10,000 in the three years over which the project will produce cash flows. If the discount rate is 9%, what is the net present value of the project?

Extra Credit

1. Galaxy Grass Breath

.1 750 .2 0 .1 300

.3 800 .2 675 .2 600

.4 900 .4 750 .3 700

.2 1200 .2 900 .4 1100

A Calculate the expected rate of return for each stock

B Calculate the coefficient of variation for each stock

C Rank from least to highest

D What would you recommend