

Managerial Finance (FTX1005S)
Tutorial Test 4 (Sources of Finance and Financial Markets)
Week Beginning 12 August 2019

<i>Tutorial group no:</i>		<i>Mark %</i>	
<i>Your student no:</i>		<i>Your name</i>	

Please answer this tutorial test in the space provided on this question and answer sheet. All workings and your answer must be done on this sheet. You may not attempt to write down any of your answers on any other document.

1. Besides the financing decision, name two other fundamental decisions which finance managers take in order to create firm value. (2 marks)

ANSWER:

- Capital budgeting (or capital investment or capital expenditure) decision (1)
- Working capital decision (1)

2. State the similarity and the difference between stakeholders and shareholders in the context of a company. (2 marks)

ANSWER:

Similarity: Both stakeholders and shareholders have an interest (claim or stake) in the company (1).

Difference: Only shareholders have an ownership interest (1).

3. Provide two advantages of using long-term debt in the capital structure of a business. (2 marks)

ANSWER:

- Interest is a tax deductible expense and so it reduces the amount of tax paid by the company (1)
 - Long-term debt finance is the cheapest source of long-term finance (1).
 - When profits are high or are increasing, firms with long-term debt would have a higher ROE than firms without debt (1).
- [Any two of the above]**

4. What is the role of the financial system in an economy and what are the two major components of the financial system? (3 marks)

ANSWER:

The role of the financial system is to transfer funds from those with excess funds (lender-savers) to those in need of funds (borrower-spenders) (1).

The two major components of a financial system are financial markets (1) and financial institutions (1)

5. What is a stock (or share) market index? Name one of the three most popular stock market indices in the United States of America (USA). (2 marks)

ANSWER:

A stock market index is a measure of the performance of shares in a stock market, that is, whether on average the share prices have increased or decreased (1).

The three most popular indices in the USA are: **[1 mark for any one of the following]**

- The Dow Jones (or The Dow Jones Industrial Average)
- The S&P 500
- The Nasdaq (or Nasdaq Composite)