Texas A&M International University

FIN 3310 SP19 Exam 2 2019-04-04

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Answers 1 - 15

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Answers 16 - 20

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	a	b	c	d	e

1. Assuming the discount rate is 7.51%, find the net present value of a project with the following cash flows, starting at time 0: $-1000, 475, 275, 450, 325, 350
   (a) $744.02
   (b) $1015.81
   (c) $528.82
   (d) $628.82
   (e) $875

2. If a net present value analysis for a normal project with standard cash flows gives an NPV lower than zero, an internal rate of return calculation on the same project would yield an internal rate of return (IRR) _____ the required rate of return for the firm.
   (a) equal to
   (b) Not enough information
   (c) greater than
   (d) less than
   (e) There will be multiple IRR values

3. All else equal, a bond will sell at _____ when the yield to maturity is _____ the coupon rate.
   (a) a discount; equal to
   (b) a discount; higher than
   (c) a discount; lower than
   (d) a premium; higher than
   (e) a premium; equal to

4. Find the internal rate of return of a project with the following cash flows, starting at time 0: $-1200, 550, 400, 525, 450, 225.
   (a) 25.01%
   (b) 26.01%
   (c) 25.76%
   (d) 26.76%
   (e) 25.51%

5. In estimating the net investment, an outlay that has already been made, and which cost cannot be recovered, is known as a . . .
   (a) opportunity cost
   (b) cash outflow
   (c) fixed cost
   (d) expansion cost
   (e) sunk cost

6. Shares of XYZ currently trade at $40.04 and pay $4.26 in dividends annually. If the required return is 11.21% and the market uses the dividend discount model to price this stock, what is the implied growth rate of the dividend?
   (a) 0.43%
   (b) 0.86%
   (c) 11.21%
   (d) 2.07%
   (e) 0.57%

7. American Depository Receipts (ADRs) are used to . . .
   (a) Trade shares of foreign companies that do not trade on a US exchange
   (b) Trade shares of US shares from a foreign exchange
   (c) Record transactions in eurodollars or in foreign currencies
   (d) Control bank accounts in foreign banks from the US
   (e) Control bank accounts in US banks from abroad

8. If a vanilla corporate bond has a 3.77% coupon rate, what is the semiannual coupon?
   (a) $7.54
   (b) Not enough information
   (c) $3.77
   (d) $1.88
   (e) $18.85

9. Which of the following statements is *TRUE*:
   (a) Firms must pay dividends to preferred stockholders before they can pay common stockholders
   (b) Dividends are considered a cost of doing business and are tax deductible
   (c) Most common stock cannot vote in elections
   (d) Debt holders can intervene in firm policies and decisions even when the firm pays debts on time and does not violate the debt covenants
   (e) Preferred stock is senior to most debt issues

10. Which of the following is the most junior in bankruptcy proceedings?
    (a) Commercial paper
    (b) Preferred stock
    (c) Long-term bonds
    (d) Common stock
    (e) Unpaid wages

11. Assuming the discount rate is 13.58%, find the present value of a series of cash flows that pays $450 at the end of every period for 25 periods. The first cash flow is at time 1.
    (a) $3176.37
    (b) $3376.37
    (c) $11250
    (d) $3313.7
    (e) $3276.37

12. If the initial cash flow is negative and all subsequent cash flows are positive, one should accept projects whose IRR is ____ than the required rate of return.
    (a) Not enough information
    (b) higher
    (c) lower
    (d) the same
    (e) Doesn't matter

13. Analysts have forecasted IDM's dividend next year to be $5.33 per share. The required rate of return is 9.4%. What is the current share price of IDM if dividends are expected to grow at 1.43% per year in the future?
    (a) $56.7
    (b) $64.88
    (c) $59.7
    (d) $66.88
    (e) $33.44
14. A bond trading at par has a coupon rate of 7.94%. What is that bond's yield to maturity?
    (a) $8.94
    (b) $7.94
    (c) $15.88
    (d) $3.97
    (e) Not enough information
15. Find the internal rate of return of a project with the following cash flows, starting at time 0: $-1000, 225, 325, 250, 500, 550.
    (a) 20.78%
    (b) 20.03%
    (c) 21.78%
    (d) 21.28%
    (e) 20.53%
16. YYY's preferred stock is trading at $27.17 and paying dividends of $2.91 per year. What is the required return on this stock?
    (a) Not enough information
    (b) 10.71%
    (c) 8.71%
    (d) 8.03%
    (e) 16.07%
17. In calculating a project's total cash flow, we *NEVER* consider
    (a) depreciation
    (b) changes in net working capital
    (c) fixed costs
    (d) interest charges
    (e) taxes
18. Which of the following cash flows should *NOT* be included when calculating the NPV of the decision (to be made today) to produce a new car model?
    (a) The effect of equipment depreciation on taxes
    (b) The reduction in the sales of the company's existing car model because of introducing the new line
    (c) The expenditure on new plant and equipment needed for the new model
    (d) The cost of research and development during the previous three years
    (e) The salvage value of plant and equipment at the end of the projects life

19. PG *is about to pay* a dividend of \$2.51 per share. The required rate of return is 14.98%. What is the current share price of PG if dividends are not expected to grow in the future?

    (a) \$9.63
    (b) \$14.25
    (c) \$16.76
    (d) \$19.27
    (e) \$15.74

20. Assuming the discount rate is 8.26%, find the net present value of a project with the following cash flows, starting at time 0: \$-1300, 350, 200, 475, 425, 325

    (a) \$621.62
    (b) \$475
    (c) \$339.57
    (d) \$96.24
    (e) \$296.24

Short Answer Problem

Show your work for partial credit

1. If a project is expected to have annual sales of \$1000, variable costs of \$225, fixed costs of \$150, and an annual depreciation expense of \$350, what is the project's net present value assuming depreciation was straight-line to zero over seven years, the appropriate discount rate is 8%, and the tax rate is 21%? Assume that the project ends when the initial investment has a book value of zero.

2. In problem 1 above, what would the project be worth if the initial investment was depreciated to half its original value and then sold at book value after seven years?