Last Update: **4 Dec 2025**

Permanently Retired Corporate Finance Exam Questions

1. Explain why debt is said to have asymmetric payoffs. Ans: upside is capped; but bear downside risk [3 Sentences]
2. The price of Corp A stock is $10/share, and Corp A is expected to pay a dividend of $0.50 per share next year. If dividends are expected to grow at a constant rate of 4%/year indefinitely, what is a back-of-the envelope estimate of the rate of return the market is requiring on Corp A's stock?
    a. 8.5%
    b. 4.0%
    c. 9.5%
    d. 9.0%
    e. 4.5%
3. You purchased a 3% semiannual level-coupon bond with $100,000 face value and 5 years to maturity. If the effective annual interest rate suddenly increases from 5% to 7%, which statement is most accurate?
    a. The bond's price will increase because investors demand higher returns
    b. The bond's price will decrease by approximately the same percentage for both the coupon payments and the principal repayment
    c. The longer-dated cash flows will experience proportionally larger price changes than near-term cash flows
    d. The bond's coupon rate will automatically adjust to 7% to maintain its par value
4. Explain why the use of debt is said to be a financial two-edged sword. [3-5 Sentences]
5. A 5% semiannual coupon bond with a face value of $100,000 has 10 years to maturity (20 semiannual periods). If the current market interest rate is 4% per annum (effective), the bond is trading at:
    a. A discount, because the coupon rate exceeds the current market interest rate
    b. A premium, because the coupon rate exceeds the current market interest rate
    c. A discount, because the current market interest rate exceeds the coupon rate
    d. Par value, because the time to maturity is sufficiently long
6. Your client is a large hedge fund that was a shareholder (5%) in TechCo, a large publicly traded company specializing in AI software that is used in Nvidia chips that was just acquired by Nvidia. Your client believes that the price was too low and wants to file an appraisal action. What's probably the best advice to the hedge fund counsel:
    a. If the consideration is solely Nvidia stock, since Nvidia would be considered to a strategic acquirer, at a minimum, your client could expect to receive the deal price less agency costs plus statutory interest in an appraisal action.
    b. If the consideration is solely cash, Nvidia would be considered to a strategic acquirer, at a minimum, your client could expect to receive the deal price, less synergies, less agency costs plus statutory interest, in an appraisal action.
    c. If the consideration is solely cash, since Nvidia would probably be considered to a financial acquirer, at a minimum, your client could expect to receive the deal price less agency costs plus statutory interest in an appraisal action.

   d. If the consideration is solely cash, since Nvidia would probably be considered to a strategic acquirer, at a minimum, your client could expect to receive the deal price less synergies plus statutory interest in an appraisal action.

7. Consider two bonds, both with a maturity of 30 years:

   Bond A: Pays $50 in Year 1 and $950 in Year 30
   Bond B: Pays $1,000 in Year 30 only (zero-coupon bond)

   Which statement is correct regarding these bonds?

   a. Both bonds have the same duration since they have the same maturity
   b. Bond A has a shorter duration than Bond B because it pays some cash earlier
   c. Bond B has a shorter duration than Bond A because it has only one payment
   d. Duration and maturity are always equal for all bonds

8. A project has an expected cash flow of $100 million in one year. The project beta is 1.5. The risk-free rate is 3%, and the equity premium is 4%. According to the CAPM, what is the present value of this cash flow?
   a. $90.50 million
   b. $91.74 million
   c. $92.86 million
   d. $93.46 million

9. In a Delaware appraisal action, DCF would more likely be used by a Del. Chancery Court judge in an action involving:
   a. A cash out merger of a publicly traded company by a publicly traded strategic acquirer.
   b. A cash out merger of a publicly traded company by a publicly traded financial acquirer.
   c. A cash out merger of a publicly traded company by a private financial acquirer (aka a PE fund).
   d. A cash out merger of a private company by a private financial acquirer (aka a PE fund).