Q: What does WACC stand for?

A: WACC stands for the weighted average cost of capital.

Q: What is the pure play approach?

A: The pure play approach is a use of a WACC that is unique to a particular project, based on companies in similar LOB.

Q: What is expected return?

A: Expected return is a return on a risky asset expected in the future.

Q: What is a portfolio?

A: A portfolio is a group of assets such as stocks and bonds held by an investor.

Q: What is a beta coefficient?

A: A beta coefficient is an amount of systematic risky present in a particular risky asset that’s relative to that in an average risky asset.

Q: What does SML stand for?

A: SML stands for security marker line.

Q: What is SML or security market line?

A: SML is a positive sloped line displaying the relationship between expected return and beta.

Q: What is market risk premium?

A: Market risk premium is the risk premium on a market portfolio.

Q: What does CAPM stand for?

A: CAPM stands for capital asset pricing model.

Q: What’s the cost of capital?

A: Cost of capital is the minimum required return on a new investment.

Q: What are the four basic areas of finance?

A: The four basic areas of finance are corporate finance, investments, finance institutions and international finance.

Q: What is capital budgeting?

A: Capital budgeting is the process of planning and managing a firm’s long-term investment.

Q: What is capital structure?

A: Capital structure is the mixture of debt and equity maintained by a firm.

Q: What is a sole proprietorship?

A: A sole proprietorship is a business owned by a single individual.

Q: What is a partnership in terms of business?

A: A partnership is a business formed by two or more individuals or entities.

Q: What is a corporation?

A: A corporation is a business created as a distinct legal entity owned by one or more individuals or entities.

Q: What is a stakeholder?

A: A stakeholder is someone other than a stockholder or creditor who potentially has a claim on the cash flows on the firm.

Q: What is a balance sheet?

A: A balance sheet is a financial statement showing a firms accounting value on a particular date.

Q: What is an income statement?

A: An income statement is a financial statement summarizing a firm’s performance over a period of time.

Q: What’s an average tax rate?

A: An average tax rate is the total taxes paid divided by total taxable income.

Q: What’s marginal tax rate?

A: Marginal tax rate is the amount of tax payable on the next dollar earned.

Q: What is a common-size statement?

A: A common-size statement is a standardized financial statement presenting all items in presenting all items in percentage terms.

Q: What is a financial ratio?

A: A finical ratio is relationships determined from a firm’s financial information and used for comparison purposes.

Q: What does SIC code stand for?

A: SIC code is a standard industrial classification code.

Q: What’s the purpose of a SIC code?

A: The SIC code is used by the U.S. government to classify a firm by its type of business operations.

Q: What does FV stand for?

A: FV is the future value.

Q: What is future value?

A: Future value is the amount an investment is worth after one or more periods.

Q: What is compounding?

A: Compounding is the process of accumulating interest in an investment over time to earn more interest.

Q: What is interest on interest?

A: Interest on interest is the interest earned on the reinvestment of previous interest payments.

Q: What is a compound interest?

A: A compound interest is the interest earned on both the initial principal and the interest reinvested from prior periods.

Q: What is simple interest?

A: Simple interest is interest earned only on the original principle amount invested.

Q: What does PV stand for?

A: PV stands for present value.

Q: What is present value?

A: Present value is the current value of future cash flows discounted at the appropriate discount rate.

Q: What is a type of perpetuity?

A: A type of perpetuity is a consol.

Q: What is an annuity in which the cash flows continue forever?

A: Perpetuity is an annuity in which the cash flows continue forever.

Q: What does APR stand for?

A: APR is an annual percentage rate.

Q: What is annual percentage rate?

A: APR is the interest rate charged per period multiplied by the number of periods per year.

Q: What is a pure discount loan?

A: A loan that the borrower receives money today and repays a single lump sum at some time in the future.

Q: What is an interest-only loan?

A: An interest only loan has a repayment plan that calls for the borrower to pay interest each period and to repay the entire principle at some point in the future.

Q: What is an amortized loan?

A: An amortized loan is a pure discount or interest-only loan, the principle is repaid all at once.

Q: A stated interest payment made on a bond is known as?

A: A coupon.

Q: The principle amount of a bond that is repaid at the end of the term is known as?

A: The face value.

Q: The annual coupon divided by the face value of a bond is known as?

A: The coupon rate.

Q: The date on which the principle amount of a bond is paid is known as?

A: The maturity.

Q: What does YTM stand for?

A: YTM is the yield to maturity.

Q: A bond’s annual coupon divided by its price is known as?

A: The current yield.

Q: What is a zero coupon bond?

A: A zero coupon is a bond that makes no coupon payments and thus is initially priced at a deep discount.

Q: What is a dividend yield?

A: A dividend is stocks expected cash divided by its current price.

Q: What is a capital gains yield?

A: A capital gain yield is the dividend growth rate or the rate at which the value of an investment grows.

Q: What does DCF stand for?

A: DCF is the discounted cash flow.