Roll No:

Name:

**DHIRUBHAI AMBANI INSTITUTE OF INFORMATION AND COMMUNICATION TECHNOLOGY, GANDHINAGAR**

SECOND IN-SEMESTER EXAMINATION – OCTOBER 2022

Marks:30 Duration:1 hour

Subject Name: Corporate Finance

Subject Code: HM403

**Instructions for students**

1. **Tick MCQs or fill in the blanks as required in the question paper itself. Do not write anything else in it. Rough sheet will be provided for calculations.**
2. **There is no negative marking for MCQs.**
3. **Use of (only) non programmable calculators are allowed.**
4. A limited liability company
5. is in fact a simple partnership
6. is another name for a corporation
7. **is a limited partnership without a general partner**
8. is a limited partnership with a general partner
9. none of the above
10. Net income
11. is the total revenue realized by the firm from its sales
12. equals to revenue minus cost of goods sold
13. **equals gross income minus costs**
14. is the earnings of the firm before interest and taxes
15. both 2 and 4
16. The primary agency relationships in business are between
17. stockholders and managers
18. stockholders and debtholders
19. managers and bondholders
20. **both 1 and 2**
21. agency theory is not relevant in business
22. Increasing the firm’s level of debt
23. has no effect on return on equity
24. lowers return on equity
25. **increases return on equity**
26. can either increase or lower return on equity
27. none of the above
28. Clause 49 of SEBI is relevant in the context of
29. listing agreement to the stock exchange
30. corporate governance
31. annual general meetings of company
32. **both 1 and 2**
33. 1, 2 and 3
34. Debt covenant is related to
35. internal corporate governance control
36. **external corporate governance control**
37. both 1 and 2
38. unrelated to corporate governance
39. none of the above

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|  | 1. Amortization refers to 2. the process of loan settlement 3. calculating depreciation in the case of intangible assets 4. calculating depreciation n in the case of tangible assets 5. **both 1 and 2** 6. none of the above |

1. Opportunity cost refers to
2. implicit costs
3. explicit costs
4. accounting cost
5. **sum of implicit and explicit cost**
6. both 2 and 3
7. Which of the following is not an approach for calculating the price of a stock?
8. dividend discount model
9. total payout model
10. valuation using multiples
11. discounted free cash flow model
12. **none of the above**
13. The growth of earnings can be written as

**retention rate\*return on new investment**

retention rate\*dividend payout rate

retention rate\*earnings

earnings per share\* dividend payout rate

none of the above

1. Which of the following is most appropriate approach for valuing newer companies?
2. price to earnings ratio
3. **price to sales ratio**
4. ratio of price to book value of equity per share
5. enterprise value multiples
6. none of the above
7. The efficient markets hypothesis states that
8. securities will be fairly priced given all information is available
9. financial markets are always efficient at dissemination of information
10. arbitrage possibilities would be quickly exploited
11. **both 1 and 3**
12. none of the above
13. Limitations of the dividend discount model include
14. uncertainty in the payment of dividends
15. potential changes in the assumed dividend growth rate
16. possibility of share repurchases by the company
17. difficulty in forecasting borrowing decisions of the company
18. **All of the above**
19. Time value of money emphasizes the idea that
20. money in the future is worth more than money today
21. **money today is worth more than money in the future**
22. value of money stays always the same
23. money today can either be more or less than money in the future
24. none of the above
25. A firm can increase its share price by
26. retaining more of its earnings
27. paying out more dividends
28. **retaining earnings or paying dividends depending on profitability of new investment**
29. all of the above
30. none of the above
31. The sum of dividend yield and capital gains yield would give
    1. the assured rate of return
    2. **the required rate of return**
    3. growth rate of earnings
    4. total dividend payout rate
    5. none of the above
32. The difference between nominal rate of interest and rate of inflation is
33. assured rate of interest
34. accrued rate of interest
35. **real rate of interest**
36. effective rate of interest
37. none of the above
38. A stock valuation model links a firm’s
39. **future cash flows, its cost of capital and the share price**
40. future cash flows its cost of capital and its growth rate
41. future cash flows, retained earnings and its growth rate
42. future cash flows and its share price
43. none of the above
44. Which of the following is a legally defined artificial being?
45. a sole proprietorship
46. a partnership
47. **a corporation**
48. both 2 and 3
49. all of the above
50. The future value of Rs 25000 at 8 per cent interest in 10 years is equal to Rs 53,973.12
51. Suppose that you invest Rs 20,000 in a bank account paying 8% interest. You plan to withdraw Rs 2000 at the end of each year for 15 years. The money you will have in the account after 15 years is Rs 57,099.04
52. The initial cost of an investment today is Rs 1 lakh and the returns in one, two and three years and four years are Rs 10,000, Rs 20,000, Rs 30,000 and Rs 40,000 respectively. The discount rate is 6 per cent. The Net Present Value of the investment is -15,893.81
53. The internal rate of return on a sum of 8 lakh generating a future cash flow of Rs 30 lakh in 5 years’ time is 30.2 per cent
54. The dividend next year for Glenmark’s stock is Rs 10 and it is expected to grow at the rate of 5 per cent afterwards. If the required rate of return is 16 per cent, the value of the stock is Rs 90.9
55. Byjus has been growing at a rate of 20 per cent which is expected to last four years after which the growth rate is expected to remain indefinitely at 8 per cent. The required rate of return on comparable stocks is 15 per cent. If the total dividends just paid is 30 lakhs and there are 2 crore shares outstanding, the value of a stock is Rs 3.41
56. Suppose Tata Steel has earnings per share of Rs 5. If the average P/E of comparable firms in the industry is 20, the value of the company’s stock is Rs 100
57. You want to endow an annual graduation party at your alma mater. The budgeted amount is Rs 3,00,000 per year forever for the party. If the university earns 8% per year on its investments, and if the first party is in one year’s time, the amount that you will need to donate to endow the party is Rs 37,50,000
58. In the above question, if the cost of the party is expected to rise by 4 per cent per year thereafter, the donation amount required is Rs 75,00,000
59. Smitha is 35 years old, and she has decided it is time to plan seriously for her retirement. At the end of each year until she is 65, she will save Rs 10,000 in a retirement account. If the account earns 10% per year, Smitha’s savings at the age 65 is Rs 17,44,940.22
60. Reliance Industries has 20 crore shares outstanding and expects earnings of Rs 90 crore at the end of the year. Out of its total earnings, 30 per cent and 10 per cent are to be paid out as dividends and share repurchases respectively. If the earnings of the company are expected to grow at 5 per cent annually and the required rate of return on comparable stocks is 10 per cent, the value of the Reliance stock is Rs 20.76