Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM & ENERGY STUDIES
Online End Semester Examination, May 2021

Course: Financial Management **Semester: II**
Program: B. Com (H)- BMI & Taxation **Time 03 hrs.**
Course Code: FINC 1002 **Max. Marks: 100**

IMPORTANT INSTRUCTIONS

1. The student must write his/her name and enrolment no. in the space designated above.
2. The questions have to be answered in this MS Word document.
3. After attempting the questions in this document, the student has to upload this MS Word document on Blackboard.

ALL THE BEST!!!

SECTION A

1. Each Question will carry 5 Marks

2. Instruction: Complete the statement / Select the correct answer(s)

S.No.	Questions	CO
1.	**State True/False for the following statements:** a. Jamie deposits $1,000 into an account that pays 4% interest compounded annually. Chris deposits $1,000 into an account that pays 4% simple interest. Both deposits were made today. At the end of five years, Chris will have more money in his account than Jamie has in hers b. Jamie deposits $1,000 into an account that pays 4% interest compounded annually. Chris deposits $1,000 into an account that pays 4% simple interest. Both deposits were made today. At the end of one year, both Jamie and Chris will have the same amount in their accounts c. Tom and Antonio both want to open savings accounts today. Tom wants to have $1,000 in his savings account six years from now. Antonio wants to have $1,000 in his savings account three years from now. Tom needs to deposit more money into his account today than does Antonio. d. Tom and Antonio both want to open savings accounts today. Tom wants to have $1,000 in his savings account six years from now. Antonio wants to have $1,000 in his savings account three years from now. Tom needs to deposit more money into his account today than does Antonio. e. Tom and Antonio both want to open savings accounts today. Tom wants to have $1,000 in his savings account six years from now. Antonio wants to have $1,000 in his savings account three years from now. Tom needs to deposit more money into his account today than does Antonio.	**CO1**

2.	You are considering a project that costs $300 and has expected cash flows of $110, $121, and $133.10 over the next three years. If the appropriate discount rate for the project's cash flows is 10%, what is the net present value of this project? A. ($8.58) B. $0.00 C. $0.71 D. $19.79 E. $64.10	**CO1**
3.	Which of the following is not a part of the good decision criteria? A. Time value of money B. Risk C. Value to the economy D. Value to the firm	**CO2**
4.	A 25- year project has a cost of $1,500,000 and has annual cash flows of $400,000 in years 1-15, and $200,000 in years 16-25. The company's required rate is 14%. Given this information, calculate the NPV of the project. A. $0.50 million B. $0.70 million C. $0.87 million D. $1.00 million E. $1.10 million	**CO2**
5.	Spotify needs $100 billion to acquire YouTube, Spotify will issue equity shares from the following market: A. Money market B. Capital market C. Farmers' market D. Stock market	**CO3**
6.	A project costs $12,500 to initiate. Cash flows are estimated as $2,500 a year for the first two years and $3,100 a year for the next three years. The discount rate is 11.25%. The net present value for this project is _____ and the internal rate of return is _____ the discount rate. A. -$2,138.52; more than B. -$2,138.52; less than C. $1,800.00; more than D. $1,800.00; less than E. $2,138.52; less than	**CO4**
SECTION B **1. Each question will carry 10 marks** **2. Instruction: Write short / brief notes**		
7.	If Treasury bills are currently paying 6% and the inflation rate is 2.6%, a. What is the approximate real rate of interest? b. What is the exact real rate of interest?	**CO1**

8.	**State True/False for the following statements:** a. An annuity stream of cash flow payments is a set of level cash flows occurring each time period for a fixed length of time. b. You are going to invest $500 at the end of each year for 10 years. Given an interest rate, you can find the future value of this investment by applying the proper future value factor to each cash flow, then adding up these future values. c. An annuity stream where the payments occur forever is called an annuity due. d. Preferred stock dividends fit the definition of a perpetuity. e. The interest rate charged per period multiplied by the number of periods per year is called the annual percentage rate (APR). f. Failure to pay either the interest payments or the bond principal as agreed can cause a firm to go into bankruptcy. g. A sinking fund is used to pay off portions of debt each year. h. Assume the anticipated growth rate in dividends is constant for Fly-By-Nite Airlines. The expected value of the firm's stock at the end of four years (P4) can be calculated using: $D_5/(r-g)$ and $P_0 \times (1+g)^4$. i. Dividends on the common stock of Stable Inc. are expected to grow at a constant rate forever. If you are told Stable's most recent dividend paid, its dividend growth rate, and a discount rate, you can only calculate the price now, from the past and into the future. j. The dividend growth model assumes that dividends increase at a constant rate forever.	**CO1**
9.	A company has 7.5% coupon bonds on the market that have ten years left to maturity. The bonds make annual payments. If the YTM on these bonds is 8.75%, what is the current bond price?	**CO2**
10.	A company has bonds on the market making annual payments, with nine years to maturity, and selling for $948. At this price, the bonds yield 5.9%. What must the coupon rate be on the bonds?	**CO3**
11.	The next dividend payment by company will be $1.89 per share. The dividends are anticipated to maintain a 5% growth rate forever. If the stock currently sells for $38.00 per share, what is the required return?	**CO4**
SECTION C **1. Each question will carry 20 marks** **2. Instruction: Write long answers**		
12.	Explain fully the many differences between debt and equity, including difference in risk, ownership rights and taxes. Provide two examples of debt and explain how they are different. Provide two examples of equity and explain how they are different.	**CO4**