MID-WESTERN UNIVERSITY
FACULTY OF MANAGEMENT
FINAL EXAMINATION: 2075
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER - IV

Subject: Introduction to Finance-II — Course Code: MGMT 341
Full Marks: 100 — Time: 3:00 Hours

You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.

SECTION A: VERY SHORT ANSWER QUESTIONS (10 X2 = 20 MARKS)

*Answer **ALL** questions.*

Q1. A stock that recently paid dividend Rs 40 per share, which is expected to grow at constant rate of 5% per year forever. If cost of capital is 15%. What is the value of stock?
Q2. List out the sources of short term financing.
Q3. An investor invested 60% in stock A and 40% in stock B. if A's return is 20% and B's return is 12%. What would be the investor portfolio return?
Q4. List out the advantage of commercial paper.
Q5. Differentiate between perpetual and zero coupon bond.
Q6. What do you mean by revolving credit agreement?
Q7. List out the types of leverage.
Q8. Describe the meaning of capital structure.
Q9. Describe the meaning of portfolio.
Q10. List out the feature of common stock.

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

*Answer any **SIX** questions.*

Q11. The Star Company has just paid a cash dividend of Rs 10 per share. Investors required a 12% return from investment. If the dividend is expected to grow at constant rate 8 % per year,
a) Calculate the expected dividend until the 5 years. (4)
b) What will the stock be worth in five year from now? (4)

Q12. Compute the value of following bond:
a) 8 % coupon Rs 1000 par value perpetual bond, required rate of return is 10%. (4)
b) 10 years zero coupon bonds the required return of the bond is 12%. (4)

Q13. United Watch Company manufactures a single product that is sold through discount house. Each unit is sold for Rs 35. The fixed cost is Rs 150,000 for 30,000 units and variable cost is Rs 25 per unit.
a) What is the firms gain or loss at 8,000 units and 15,000 units? (4)
b) What is the degree of operating leverage at sales of 15,000 units? (4)

Q14. Yellow Nepal Company borrowed Rs 1.5 million from Laxmi Bank. The loan was made at a simple interest rate of 9% for 3 month. A 20% compensating balance raised the effective cost.
a) The effective interest rate on lone was 11.5%.what is the true effective interest rate. (4)
b) What would be the effective cost of the loan if the note required discount basis. (4)

Q15. What are the advantage and disadvantages of common stock? Explain in brief. (8)
Q16. Preferred stock is often called hybrid securities. Explain. (8)
Q17. What do you mean by financial leverage? How is the degree of financial leverage calculated? (3+5)
Q18. What is the capital structure? How does it differ from financial leverage? (3+5)

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

*Answer any **TWO** questions.*

Q19. Stock A and B have the following historical data:

prob	0.2	0.3	0.1	0.1	0.3
Stock A	15%	5%	10%	12%	-5%
Stock B	20%	0%	15%	17%	-10%

a) Calculate the expected return and stander deviation of stock A and B. (8)
b) If you form a portfolio comprising 60 percent stock A and 40 percent in stock B calculate the expected return and standard deviation of the portfolio? (8)

Q20. Chaudhary automobile estimate that it will need an additional Rs 150,000 for the month of April due to the seasonal nature of its business. It has three options available to provide the need funds. (5)
a) Established a one year line of credit for Rs 150, 000 with a commercial bank. The commitment fee would be 1% and the interest charge would be 10% per annum on the used fund. No minimum time on the use of the money. (5)
b) Forgo the April trade discount of 2/10 net 40 on Rs 150,000 of account payable.
c) Issue Rs 150,000 of sixty day commercial paper at a 9% per annum interest rate. Since the funds are only required for only 30 days, the excess funds are invested in 8% per annum marketable securities for the month of May. Total transaction fee on purchasing and selling the marketable securities is 0.5% of the fair market value. Which alternatives result in the lowest cost? (6)

Q21. Explain the meaning of long term sources of financing and also differentiate between bond, debenture and preferred stock. (16)

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