

Question 1

The IRR for this project is closest to:

- A) 15.60%
- B) 18.95%
- C) 20.00%
- D) 25.85%

Answer: <https://biology-forums.com/index.php?topic=815085>

Question 2

Rearden Metal has a bond issue outstanding with ten years to maturity, a yield to maturity of 8.6%, and a B rating. The corresponding risk-free rate is 3% and the market risk premium is 6%. Assuming a normal economy, the expected return on Rearden Metal's debt is closest to:

- A) 0.6%
- B) 1.6%
- C) 4.6%
- D) 6.0%

Answer: <https://biology-forums.com/index.php?topic=815697>

Question 3

If the current inflation rate is 4% and you have an investment opportunity that pays 10%, then the real rate of interest on your investment is closest to:

- A) 10.0%
- B) 14.0%
- C) 6.0%
- D) 5.8%

Answer: <https://biology-forums.com/index.php?topic=814937>

Question 4

Which of the following organization forms accounts for the greatest number of firms?

- A) "S" corporation
- B) Limited partnership
- C) Sole proprietorship
- D) "C" corporation

Answer: <https://biology-forums.com/index.php?topic=814572>

Question 5

What is Luther's enterprise value?

- A) \$16 billion
- B) \$10.5 billion
- C) \$24 billion
- D) \$20 billion

Answer: <https://biology-forums.com/index.php?topic=815910>

Question 6

If Flagstaff maintains a debt to equity ratio of 1, then Flagstaff's pre-tax WACC is closest to:

- A) 11.0%
- B) 10.5%
- C) 10.0%
- D) 9.0%

Answer: <https://biology-forums.com/index.php?topic=815973>

Question 7

Which of the following statements is FALSE?

- A) The risk premium of a security is equal to the market risk premium (the amount by which the market's expected return exceeds the risk-free rate), divided by the amount of market risk present in the security's returns measured by its beta with the market.
- B) We refer to the beta of a security with the market portfolio simply as the securities beta.
- C) There is a linear relationship between a stock's beta and its expected return.
- D) A security with a negative beta has a negative correlation with the market, which means that this security tends to perform well when the rest of the market is doing poorly.

Answer: <https://biology-forums.com/index.php?topic=815584>

Question 8

Epiphany would like to know how sensitive the project's NPV is to changes in the discount rate. How much can the discount rate vary before the NPV reaches zero?

Answer: <https://biology-forums.com/index.php?topic=815268>

Question 9

Which of the following statements is FALSE?

- A) Given a 35% corporate tax rate, for every \$1 in new permanent debt that the firm issues, the value of the firm increases by \$0.65.
- B) The firm's marginal tax rate may fluctuate due to changes in the tax code and changes in the firm's income bracket.
- C) Many large firms have a policy of maintaining a certain amount of debt on their balance sheets.
- D) Typically, the level of future interest payments varies due to changes the firm makes in the amount of debt outstanding, changes in the interest rate on that debt, and the risk that the firm may default and fail to make an interest payment.

Answer: <https://biology-forums.com/index.php?topic=815960>

Question 10

Your firm is planning to invest in a new electrostatic power generation system. Electrostat Inc is a firm that specializes in this business. Electrostat has a stock price of \$25 per share with 16 million shares outstanding. Electrostat's equity beta is 1.18. It also has \$220 million in debt outstanding with a debt beta of 0.08. Your estimate of the asset beta for electrostatic power generators is closest to:

- A) 0.76
- B) 0.79
- C) 0.93
- D) 1.10

Answer: <https://biology-forums.com/index.php?topic=815713>

Question 11

Suppose you will receive \$500 in one year and the risk-free interest rate (r_f) is 5%. The equivalent value today is closest to:

- A) \$475
- B) \$476
- C) \$500
- D) \$525

Answer: <https://biology-forums.com/index.php?topic=814730>

Question 12

Perrigo's return on equity (ROE) is closest to:

- A) 4.6%
- B) 9.1%
- C) 17.2%
- D) 27%

Answer: <https://biology-forums.com/index.php?topic=814683>

Question 13

After your grandmother retired, she purchased an annuity contract for \$250,000 that will pay her \$25,000 at the end of every year until she dies. The appropriate interest rate for this annuity is 8%. The number of years that your grandmother must live in order to get more value out of the annuity than what she paid for it is closest to:

- A) 21
- B) 16
- C) 8
- D) 10

Answer: <https://biology-forums.com/index.php?topic=814889>

Question 14

Which of the following statements is FALSE?

- A) Beta differs from volatility.
- B) The risk premium investors can earn by holding the market portfolio is the difference between the market portfolio's expected return and the risk-free interest rate.
- C) Stocks in cyclical industries, in which revenues tend to vary greatly over the business cycle, are likely to be more sensitive to systematic risk and have higher betas than stocks in less sensitive industries.
- D) If we assume that the market portfolio (or the S&P 500) is efficient, then changes in the value of the market portfolio represent unsystematic shocks to the economy.

Answer: <https://biology-forums.com/index.php?topic=815449>

Question 15

Assume the appropriate discount rate for this project is 15%. The payback period for this project is closest to:

- A) 3.0
- B) 2.5
- C) 2.0
- D) 4.0

Answer: <https://biology-forums.com/index.php?topic=815127>

Question 16

What is the expected return for an individual firm?

- A) 14%
- B) 3%
- C) 5%
- D) -5%

Answer: <https://biology-forums.com/index.php?topic=815434>

Question 17

The cost of capital for a project with the same beta as Exxon Mobil's stock is closest to:

- A) 11.6%
- B) 11.2%
- C) 12.8%
- D) 7.6%

Answer: <https://biology-forums.com/index.php?topic=815468>

Question 18

Assuming that you have made all of the first 24 payments on time, then the outstanding principal balance on your SUV loan is closest to:

- A) \$14,808
- B) \$20,300
- C) \$22,212
- D) \$32,000

Answer: <https://biology-forums.com/index.php?topic=814917>

Question 19

Which of the following statements is FALSE?

- A) Managers are much less committed to dividend payments than to share repurchases.
- B) Share repurchases are a credible signal that the shares are under-priced, because if they are over-priced a share repurchase is costly for current shareholders.
- C) While an increase of a firm's dividend may signal management's optimism regarding its future cash flows, it might also signal a lack of investment opportunities.
- D) Managers will clearly be more likely to repurchase shares if they believe the stock to be under-valued.

Answer: <https://biology-forums.com/index.php?topic=816224>

Question 20

Taggart's market capitalization is closest to:

- A) \$25 billion
- B) \$31 billion
- C) \$40 billion
- D) \$50 billion

Answer: <https://biology-forums.com/index.php?topic=815324>

Question 21

Calculate the NPV for Iota's new project.

Answer: <https://biology-forums.com/index.php?topic=816262>

Question 22

On the balance sheet, current maturities of long-term debt appears:

- A) in the Stockholders' Equity section.

- B) in the Operating Expenses section.
- C) in the Current Assets section.
- D) in the Current Liabilities section.

Answer: <https://biology-forums.com/index.php?topic=814620>

Question 23

Suppose that to raise the funds for the initial investment the firm borrows \$80,000 at the risk free rate, then the cost of capital for the firm's levered equity is closest to:

- A) 45%
- B) 25%
- C) 15%
- D) 95%

Answer: <https://biology-forums.com/index.php?topic=815841>

Question 24

Consider the following equation:

$$Dt = d \times$$

the term Dt in this equation is:

- A) the firm's target debt to value ratio.
- B) the firm's target debt to equity ratio.
- C) the investment's debt capacity.
- D) the dollar amount of debt outstanding at time t .

Answer: <https://biology-forums.com/index.php?topic=816248>

Question 25

The interest rate tax shield for Kroger in 2004 is closest to:

- A) \$268 million
- B) \$393 million
- C) \$211 million
- D) \$94 million

Answer: <https://biology-forums.com/index.php?topic=815936>

Question 26

The price today of a 4 year default free security with a face value of \$1000 and an annual coupon rate of 5.25% is closest to:

- A) \$1000
- B) \$1003
- C) \$1008
- D) \$987

Answer: <https://biology-forums.com/index.php?topic=815038>

Question 27

Equity in a firm with debt is called:

- A) levered equity.
- B) riskless equity.
- C) unlevered equity.
- D) risky equity.

Answer: <https://biology-forums.com/index.php?topic=815832>

Question 28

Epiphany is worried about the reliability of the sales forecast. How sensitive is the project's NPV to a 10% change in sales?

Answer: <https://biology-forums.com/index.php?topic=815269>

Question 29

Suppose that a young couple has just had their first baby and they wish to insure that enough money will be available to pay for their child's college education. They decide to make deposits into an educational savings account on each of their daughter's birthdays, starting with her first birthday. Assume that the educational savings account will return a constant 7%. The parents deposit \$2000 on their daughter's first birthday and plan to increase the size of their deposits by 5% each year. Assuming that the parents have already made the deposit for their daughter's 18th birthday, then the amount available for the daughter's college expenses on her 18th birthday is closest to:

- A) \$42,825
- B) \$97,331

- C) \$67,998
- D) \$103,063

Answer: <https://biology-forums.com/index.php?topic=814852>

Question 30

The alpha for Chihuahua is closest to:

- A) +2%
- B) -5%
- C) -3%
- D) +3%

Answer: <https://biology-forums.com/index.php?topic=815796>

Question 31

Consider the following timeline detailing a stream of cash flows:

If the current market rate of interest is 8%, then the future value of this stream of cash flows is closest to:

- A) \$11,699
- B) \$10,832
- C) \$12,635
- D) \$10,339

Answer: <https://biology-forums.com/index.php?topic=814827>

Question 32

A _____ is when a rich individual or organization purchases a large fraction of the stock of a poorly performing firm and in doing so gets enough votes to replace the board of directors and the CEO.

- A) shareholder proposal
- B) leveraged buyout
- C) shareholder action
- D) hostile takeover

Answer: <https://biology-forums.com/index.php?topic=814589>

Question 33

Which of the following statements is FALSE?

- A) The difference between an annuity and a perpetuity is that an annuity ends after some fixed number of payments.
- B) Most car loans, mortgages, and some bonds are annuities.
- C) A growing perpetuity is a cash flow stream that occurs at regular intervals and grows at a constant rate forever.
- D) An annuity is a stream of N equal cash flows paid at irregular intervals.

Answer: <https://biology-forums.com/index.php?topic=814844>

Question 34

The standard deviation for the return on a portfolio of 20 type I firms is closest to:

- A) 5.25%
- B) 5.10%
- C) 15.0%
- D) 23.0%

Answer: <https://biology-forums.com/index.php?topic=815437>

Question 35

Which of the following statements is FALSE?

- A) The interest rates that banks offer on investments or charge on loans depends on the horizon of the investment or loan.
- B) The Federal Reserve determines very short-term interest rates through its influence on the federal funds rate.
- C) The interest rates that are quoted by banks and other financial institutions are nominal interest rates.
- D) Fundamentally, interest rates are determined by the Federal Reserve.

Answer: <https://biology-forums.com/index.php?topic=814928>

Question 36

With the proper changes it is believed that Ideko's credit policies will allow for an account receivables days of 60. The forecasted accounts receivable for Ideko in 2008 is closest to:

- A) \$14,525
- B) \$19,690
- C) \$22,710

D) \$16,970

Answer: <https://biology-forums.com/index.php?topic=816360>

Question 37

The credit spread on B-rated corporate bonds is:

- A) 1.0%
- B) 1.5%
- C) 2.6%
- D) 4.1%

Answer: <https://biology-forums.com/index.php?topic=815053>

Question 38

The Volatility on Stock Y's returns is closest to:

- A) 35%
- B) 31%
- C) 42%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=815494>

Question 39

Suppose Novak Company experienced a reduction in its ROE over the last year. This fall could be attributed to:

- A) an increase in net profit margin.
- B) a decrease in asset turnover.
- C) an increase in leverage.
- D) a decrease in Equity.

Answer: <https://biology-forums.com/index.php?topic=814692>

Question 40

Henry Rearden is saving for retirement and has determined that to live comfortably he must save \$3 million by his 65th birthday. Henry just turned 30 today, and he has decided that starting today and continuing on every birthday up to and including his 65th birthday, he will deposit the same amount into an individual retirement account (IRA). If Henry can earn 8% on his IRA, then the amount he must set aside each year to make sure that he will have \$3 million in his account on his 65th birthday is closest to:

- A) \$16,035
- B) \$17,410
- C) \$83,335
- D) \$85,715

Answer: <https://biology-forums.com/index.php?topic=814874>

Question 41

Which of the following statements is FALSE?

- A) We say a portfolio is long those stocks that have negative portfolio weights.
- B) The efficient portfolios are those portfolios offering the highest possible expected return for a given level of volatility.
- C) When two stocks are perfectly negatively correlated, it becomes possible to hold a portfolio that bears absolutely no risk.
- D) The lower the correlation of the securities in a portfolio the lower the volatility we can obtain.

Answer: <https://biology-forums.com/index.php?topic=815518>

Question 42

Perrigo's price-earnings ratio (P/E) is closest to:

- A) 15.96
- B) 21.85
- C) 29.77
- D) 35.64

Answer: <https://biology-forums.com/index.php?topic=814668>

Question 43

Using the data provided in the table, calculate the average annual return, the variance of the annual returns, and the standard deviation of the average returns for the market from 2000 to 2009.

Answer: <https://biology-forums.com/index.php?topic=815404>

Question 44

Your firm is planning to invest in a new electrostatic power generation system. Electrostat Inc is a firm that specializes in this business. Electrostat has a stock price of \$25 per share with 16 million shares outstanding. Electrostat's equity beta is 1.18. It also has \$220 million in debt outstanding with a debt beta of 0.08. If the risk-free rate is 3%, and the market risk premium is 6%, then your estimate of your cost of capital for electrostatic power generators is closest to:

- A) 7.50%
- B) 7.75%
- C) 9.50%
- D) 10.10%

Answer: <https://biology-forums.com/index.php?topic=815714>

Question 45

Which of the following statements regarding portfolio "C" is/are correct?

1. Portfolio "C" has a negative alpha.
2. Portfolio "C" is overpriced.
3. Portfolio "C" is less risky than the market portfolio.
4. Portfolio "C" should not exist if the market portfolio is efficient.

- A) 1 and 3
- B) 2 and 4
- C) 1, 3, and 4
- D) 3 only

Answer: <https://biology-forums.com/index.php?topic=815793>

Question 46

If ECE's return on assets (ROA) is 12%, then ECE's net income is:

- A) \$6 million
- B) \$12 million
- C) \$22 million
- D) \$36 million

Answer: <https://biology-forums.com/index.php?topic=814676>

Question 47

Wyatt Oil is contemplating issuing a 20-year bond with semiannual coupons, a coupon rate of 7%, and a face value of \$1000. Wyatt Oil believes it can get a BBB rating from Standard and Poor's for this bond issue. If Wyatt Oil is successful in getting a BBB rating, then the issue price for these bonds would be closest to:

- A) \$800
- B) \$891
- C) \$901
- D) \$1000

Answer: <https://biology-forums.com/index.php?topic=815054>

Question 48

Net of ordinary income taxes, the amount that investors would have if they invested the \$200 million on their own is closest to:

- A) \$5.5 million
- B) \$6.5 million
- C) \$7.0 million
- D) \$10.0 million

Answer: <https://biology-forums.com/index.php?topic=816200>

Question 49

Which of the following statements is FALSE?

- A) The direct costs of bankruptcy are likely to be higher for firms with more complicated business operations and for firms with larger numbers of creditors, because it may be more difficult to reach agreement among many creditors regarding the final disposition of the firm's assets.
- B) In a prepackaged bankruptcy (or "prepack") a firm will first develop a reorganization plan with the agreement of its main creditors, and then file Chapter 7 to implement the plan and pressure any creditors who attempt to hold out for better terms.
- C) A study of Chapter 7 liquidations of small businesses found that the average direct costs of bankruptcy were 12% of the value of the firm's assets.
- D) Studies typically report that the average direct costs of bankruptcy are approximately 3% to 4% of the pre-bankruptcy market value of total assets.

Answer: <https://biology-forums.com/index.php?topic=816051>

Question 50

Which of the following statements is FALSE?

- A) A market index reports the value of a particular portfolio of securities.
- B) The S&P 500 is the standard portfolio used to represent "the market" when using the CAPM in practice.
- C) Even though the S&P 500 includes only 500 of the more than 7,000 individual U.S. Stocks in existence, it represents more than 70% of the U.S. stock market in terms of market capitalization.
- D) The S&P 500 is an equal-weighted portfolio of 500 of the largest U.S. stocks.

Answer: <https://biology-forums.com/index.php?topic=815668>

Question 51

Suppose that if GSI drops the price on the Glucoscan 3000 immediately, it can increase sales over the next year by 30% to 130,000 units. Also suppose that for each Glucoscan monitor sold, GSI expects additional sales of \$100 per year on glucose testing strips and these strips have a gross profit margin of 75%. Considering the increase in the sale of testing strips, the incremental impact of this price drop on the firms EBIT is closest to:

- A) a decline of 1.5 million.
- B) a decline of 0.7 million.
- C) an increase of 0.7 million.
- D) an increase of 1.5 million.

Answer: <https://biology-forums.com/index.php?topic=815191>

Question 52

The value of the oil exploration division is closest to:

- A) \$4500
- B) \$7500
- C) \$8750
- D) \$10,000

Answer: <https://biology-forums.com/index.php?topic=815724>

Question 53

MJ Enterprises has 50 million shares outstanding with a market price of \$25 per share and no debt. MJ has had consistently stable earnings, and pays a 35% tax rate. Management plans to borrow \$500 million on a permanent basis through a leveraged recapitalization in which they would use the borrowed funds to repurchase outstanding shares. Calculate MJ's share price following announcement of the recapitalization plan.

Answer: <https://biology-forums.com/index.php?topic=815994>

Question 54

Do corporate decisions that increase the value of the firm's equity benefit society as a whole?

- A) Yes, as long as the value of the firm's equity increases, society is better off.
- B) Yes, as long as the increase in the value of the firm's equity does not come at the expense of others.
- C) No, any gain in the value of the firm's equity is always less than the cost to society.
- D) No, any gains in the value of the firm's equity are perfectly offset by societal costs.

Answer: <https://biology-forums.com/index.php?topic=814594>

Question 55

Assume that investors hold Google stock in retirement accounts that are free from personal taxes. If Google were to issue sufficient debt to reduce its taxes by \$600 million per year permanently, then the value that would be created is closest to:

- A) \$6.4 billion
- B) \$8.6 billion
- C) \$9.8 billion
- D) \$14.3 billion

Answer: <https://biology-forums.com/index.php?topic=816001>

Question 56

With perfect capital markets, what is the market price per share of Luther's stock after the share repurchase?

- A) \$25
- B) \$24
- C) \$15
- D) \$20

Answer: <https://biology-forums.com/index.php?topic=815874>

Question 57

Suppose that you are holding a market portfolio and you have invested \$18,000 in Taggart Transcontinental. The number of shares of Rearden Metal that you hold is closest to:

- A) 780 shares
- B) 925 shares
- C) 1730 shares
- D) 2075 shares

Answer: <https://biology-forums.com/index.php?topic=815656>

Question 58

The required net working capital in the second year for the Sisyphian Corporation's project is closest to:

- A) \$3960
- B) \$4360
- C) \$3190
- D) \$5940

Answer: <https://biology-forums.com/index.php?topic=815213>

Question 59

What does the existence of a positive alpha investment strategy imply?

Answer: <https://biology-forums.com/index.php?topic=815806>

Question 60

The internal rate of return (IRR) for project B is closest to:

- A) 21.6%
- B) 23.3%
- C) 42.9%
- D) 7.7%

Answer: <https://biology-forums.com/index.php?topic=815108>

Question 61

The expected return of a portfolio that consists of a long position of \$10,000 in Wal-Mart and a short position of \$2000 in Microsoft is closest to:

- A) 21%
- B) 12%
- C) 27%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=815525>

Question 62

Which of the following statements is FALSE?

- A) From an accounting perspective, dividends generally reduce the firm's current (or accumulated) retained earnings.
- B) The way a firm chooses between paying dividends and retaining earnings is referred to as its payout policy.
- C) Most companies that pay dividends pay them semiannually.
- D) Occasionally, a firm may pay a one-time, special dividend that is usually much larger than a regular dividend.

Answer: <https://biology-forums.com/index.php?topic=816145>

Question 63

Luther Corporation's stock price is \$39 per share and the company has 20 million shares outstanding. Its excess cash in 2009 is \$23.4. Its Debt-to-Enterprise Value Ratio in 2009 is closest to:

- A) 0.696
- B) 0.37
- C) 0.255
- D) 0.654

Answer: <https://biology-forums.com/index.php?topic=814703>

Question 64

Assume that investors hold Google stock in retirement accounts that are free from personal taxes. If Google were to issue sufficient debt to reduce its taxes by \$600 million per year permanently, then the amount that Google needs to borrow is closest to:

- A) \$14.25 billion

- B) \$22.00 billion
- C) \$24.50 billion
- D) \$40.75 billion

Answer: <https://biology-forums.com/index.php?topic=816000>

Question 65

Which of the following organization forms for a business does NOT avoid double taxation?

- A) Limited partnership
- B) "C" corporation
- C) "S" corporation
- D) Limited liability company

Answer: <https://biology-forums.com/index.php?topic=814570>

Question 66

If Ideko's loans will have an interest rate of 6.8%, then the interest expense paid in 2008 is closest to:

- A) \$6800
- B) \$7310
- C) \$7820
- D) \$7990

Answer: <https://biology-forums.com/index.php?topic=816441>

Question 67

Luther Corporation's stock price is \$39 per share and the company has 20 million shares outstanding. Its Debt -Capital Ratio for 2009 is closest to:

- A) 0.696
- B) 0.37
- C) 1.89
- D) 0.654

Answer: <https://biology-forums.com/index.php?topic=814702>

Question 68

Dusty Donuts has zero coupon debt with a face value of \$10 million due in 3 years, and no other debt outstanding. The risk-free rate is 4%, but due to default risk the yield to maturity on the debt is 10%. Dusty's believes that in the event of default, 10% of the losses are attributable to bankruptcy and distress costs. Estimate the present value of the distress costs.

- A) \$138 million
- B) \$138 thousand
- C) \$1.38 million
- D) \$1.38 thousand

Answer: <https://biology-forums.com/index.php?topic=816326>

Question 69

You have an investment opportunity that will cost you \$10,000 today, but return \$12,500 to you in one year. The IRR of this investment opportunity is closest to:

- A) 80%
- B) 125%
- C) 20%
- D) 25%

Answer: <https://biology-forums.com/index.php?topic=814884>

Question 70

The NPV of this project using the APV method is closest to:

- A) \$10 million
- B) \$13 million
- C) \$42 million
- D) \$71 million

Answer: <https://biology-forums.com/index.php?topic=816306>

Question 71

Consider the following equation:

$$E + D = U = A$$

The A in this equation represents:

- A) the value of the firm's debt.
- B) the market value of the firm's assets.
- C) the value of the firm's equity.
- D) the value of the firm's unlevered equity.

Answer: <https://biology-forums.com/index.php?topic=815889>

Question 72

Suppose that Gold Digger's beta is -0.8. If the market risk premium is 8% and the risk-free interest rate is 4%, then the expected return for Gold Digger's stock is?

- A) -2.4%
- B) 4.8%
- C) 2.4%
- D) 10.4%

Answer: <https://biology-forums.com/index.php?topic=815463>

Question 73

Using the income statement above and the following information:

Year 2006 2007 2008 2009 2010

Increases in NWC 2250 3000 3250 3600 4000

Capital Expenditures 5000 5000 20,000 15,000 8000

Net Borrowing 0 0 15,000 5000 0

Calculate Ideko's Free Cash Flow to the Firm and Free Cash Flow to Equity in 2007.

Answer: <https://biology-forums.com/index.php?topic=816461>

Question 74

If the appropriate interest rate is 8%, then present value of \$500 paid at the beginning of each of the next 40 years is closest to:

- A) \$23
- B) \$5962
- C) \$6439
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=814862>

Question 75

The expected return for the fad follower's portfolio is closest to:

- A) 11.5%
- B) 12.4%
- C) 13.6%
- D) 16.0%

Answer: <https://biology-forums.com/index.php?topic=815773>

Question 76

According to a survey of 392 CFOs conducted by John Graham and Campbell Harvey, the most common method used in corporate America to estimate the cost of capital is:

- A) the CAPM.
- B) multifactor models.
- C) characteristic models.
- D) the dividend discount model.

Answer: <https://biology-forums.com/index.php?topic=815826>

Question 77

The free cash flow from the Shepard Industries project in year one is closest to:

- A) \$240
- B) \$300
- C) -\$5
- D) \$390

Answer: <https://biology-forums.com/index.php?topic=815225>

Question 78

You are thinking about investing in a mine that will produce \$10,000 worth of ore in the first year. As the ore closest to the surface is removed it will become more difficult to extract the ore. Therefore, the value of the ore that you mine will decline at a rate of 8% per year forever. If the appropriate

interest rate is 6%, then the value of this mining operation is closest to:

- A) \$71,429
- B) \$500,000
- C) \$166,667
- D) This problem cannot be solved.

Answer: <https://biology-forums.com/index.php?topic=814855>

Question 79

Which of the following statements is FALSE?

- A) When an investor chooses her optimal portfolio, she will do so by finding the tangent line using the risk-free rate that corresponds to her investment horizon.
- B) If the market portfolio is not efficient, savvy investors who recognize that the market portfolio is not optimal will push prices and expected returns back into balance.
- C) Even though different investors may research different stocks, their information will not impact the market portfolio since there is no way to share this information with other investors.
- D) In the real world, borrowers pay higher interest rates than savers receive.

Answer: <https://biology-forums.com/index.php?topic=815564>

Question 80

Your estimate of the asset beta for Wyatt Oil is closest to:

- A) 0.59
- B) 0.66
- C) 0.71
- D) 0.90

Answer: <https://biology-forums.com/index.php?topic=815706>

Question 81

The variance on a portfolio that is made up of a \$6000 investments in Microsoft and a \$4000 investment in Wal-Mart stock is closest to:

Answer: <https://biology-forums.com/index.php?topic=815506>

Question 82

The NPV of manufacturing the armatures in house is closest to:

- A) 1,095,000
- B) 1,215,000
- C) 1,225,000
- D) 1,250,000

Answer: <https://biology-forums.com/index.php?topic=815240>

Question 83

Based upon the information provided about securities A, B, and C, the risk-free rate of interest is closest to:

- A) 4%
- B) 5%
- C) 8%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=814786>

Question 84

Which of the following statements regarding net income transferred to retained earnings is correct?

- A) Net income = net income transferred to retained earnings - dividends
- B) Net income transferred to retained earnings = net income + dividends
- C) Net income = net income transferred to retained earnings + dividends
- D) Net income transferred to retained earnings - net income = dividends

Answer: <https://biology-forums.com/index.php?topic=814647>

Question 85

For the year ending December 31, 2009 Luther's cash flow from operating activities is:

Answer: <https://biology-forums.com/index.php?topic=814651>

Question 86

Assume that investors in Google pay a 15% tax rate on income from equity and a 25% tax rate on interest income. If Google were to issue sufficient debt to reduce its taxes by \$600 million per year permanently, then the effective tax advantage of this debt would be closest to:

- A) 10%
- B) 15%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=816002>

Question 87

Which of the following statements is FALSE?

- A) To improve the performance of their portfolios, investors who are holding the market portfolio will compare the expected return of each security with its required return from the security market line.
- B) The Sharpe ratio of a portfolio will increase if we sell stocks with positive alphas.
- C) When a stock's alpha is not zero, investors can improve upon the performance of the market portfolio.
- D) When the market portfolio is efficient, all stocks are on the security market line and have an alpha of zero.

Answer: <https://biology-forums.com/index.php?topic=815586>

Question 88

Which of the following statements is FALSE?

- A) Dividing the covariance by the volatilities ensures that correlation is always between -1 and +1.
- B) Volatility is the square root of variance.
- C) The closer the correlation is to 0, the more the returns tend to move together as a result of common risk.
- D) If two stocks move together, their returns will tend to be above or below average at the same time, and the covariance will be positive.

Answer: <https://biology-forums.com/index.php?topic=815487>

Question 89

By evaluating cost and benefits using competitive market prices, we can determine whether a decision will make the firm and its investors wealthier.

This central concept is called:

- A) the Law of One Price.
- B) the Present Value.
- C) the Valuation Principle.
- D) the Internal Rate of Return.

Answer: <https://biology-forums.com/index.php?topic=814719>

Question 90

Which of the following statements is FALSE?

- A) Once investors know the recap will occur, the share price will rise immediately to a level that reflects the value of the interest tax shield that the firm will receive from its recapitalization.
- B) When securities are fairly priced, the original shareholders of a firm capture the full benefit of the interest tax shield from an increase in leverage.
- C) In the presence of corporate taxes, we do not include the interest tax shield as one of the firm's assets on its market value balance sheet.
- D) We can analyze the recapitalization using the market value balance sheet; it states that the total market value of a firm's securities must equal the total market value of the firm's assets.

Answer: <https://biology-forums.com/index.php?topic=815986>

Question 91

Based upon the information provided in the table above, you can conclude

- A) that the yield curve is flat.
- B) nothing about the shape of the yield curve.
- C) that the yield curve is downward sloping.
- D) that the yield curve is upward sloping.

Answer: <https://biology-forums.com/index.php?topic=814988>

Question 92

Which of the following statements is FALSE?

- A) The profitability index measures the value created in terms of NPV per unit of resource consumed.
- B) The profitability index is the ratio of value created to resources consumed.
- C) The profitability index can be easily adapted for determining the correct investment decisions when multiple resource constraints exist.
- D) The profitability index measures the "bang for your buck."

Answer: <https://biology-forums.com/index.php?topic=815151>

Question 93

Which of the following cash flows are relevant incremental cash flows for a project that you are currently considering investing in?

- A) The tax savings brought about by the project's depreciation expense
- B) The cost of a marketing survey you conducted to determine demand for the proposed project
- C) Interest payments on debt used to finance the project
- D) Research and Development expenditures you have made

Answer: <https://biology-forums.com/index.php?topic=815207>

Question 94

In 2000, assuming an average dividend payout ratio of 50%, the effective tax advantage for debt (t^*) was closest to:

- A) 40%
- B) 24%
- C) 30%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=816013>

Question 95

Sisyphian Bolder Movers Incorporated has no debt, a total equity capitalization of \$50 billion, and a beta of 2.0. Included in Sisyphian's assets are \$12 billion in cash and risk-free securities. Calculate Sisyphian's enterprise value and unlevered cost of equity considering the fact that Sisyphian's cash is risk-free.

Answer: <https://biology-forums.com/index.php?topic=815913>

Question 96

If CCM has \$150 million of debt and 12 million shares of stock outstanding, then the share price for CCM is closest to:

- A) \$49.50
- B) \$11.25
- C) \$20.50
- D) \$22.75

Answer: <https://biology-forums.com/index.php?topic=815331>

Question 97

Which of the following statements is FALSE?

- A) Many managers make the mistake of focusing on accounting earnings as opposed to free cash flows.
- B) Given accurate information about any two of these variables (a firm's future cash flows, its cost of capital, and its share price) a valuation model allows us to make inferences about the third variable.
- C) A valuation model will tell us the most about the variable for which our prior information is the least reliable.
- D) The idea that investors are able to identify positive NPV trading opportunities is referred to as the efficient markets hypothesis.

Answer: <https://biology-forums.com/index.php?topic=815356>

Question 98

Which of the following statements is FALSE?

- A) If the debt-equity ratio changes over time, the risk of equity - and, therefore, its cost of capital - will change as well.
- B) The FTE method can offer an advantage when calculating the value of equity for the entire firm, if the firm's capital structure is complex and the market values of other securities in the firm's capital structure are not known.
- C) The FTE approach does not have the same disadvantage associated with the APV approach. We don't need to compute the project's debt capacity to determine interest and net borrowing before we can make the capital budgeting decision.
- D) The WACC and APV methods compute the firm's enterprise value, so that a separate valuation of the other components of the firm's capital structure is needed to determine the value of equity.

Answer: <https://biology-forums.com/index.php?topic=816379>

Question 99

Which of the following investments offered the highest overall return over the past eighty years?

- A) Treasury Bills
- B) S&P 500
- C) Small stocks
- D) Corporate bonds

Answer: <https://biology-forums.com/index.php?topic=815367>

Question 100

Considering the fact that Luther's Cash is risk-free, Luther's unlevered beta is closest to:

- A) 1.90
- B) 2.25
- C) 1.50
- D) 1.45

Answer: <https://biology-forums.com/index.php?topic=815911>

Question 101

Hugh Akston took out a 30-year mortgage with an EAR of 5.9%. If Hugh borrowed \$300,000 to buy his home, then his monthly payment will be closest to:

- A) \$835
- B) \$1750
- C) \$1780
- D) \$10,240

Answer: <https://biology-forums.com/index.php?topic=814922>

Question 102

Assume that investors hold Google stock in retirement accounts that are free from personal taxes. If Google were to issue sufficient debt to reduce its taxes by \$1 billion per year permanently, then the value that would be created is closest to:

- A) \$14.25 billion
- B) \$22.00 billion
- C) \$24.50 billion
- D) \$40.75 billion

Answer: <https://biology-forums.com/index.php?topic=815997>

Question 103

Suppose the risk-free interest rate is 4%. If Nielson borrows \$150 million today at this rate and uses the proceeds to pay an immediate cash dividend, then according to MM, the market value of its equity just after the dividend is paid would be closest to:

- A) \$0 million
- B) \$150 million
- C) \$250 million
- D) \$400 million

Answer: <https://biology-forums.com/index.php?topic=815829>

Question 104

The expected return for Rearden Metal is closest to:

- A) 10.0%
- B) 11.4%
- C) 11.8%
- D) 12.0%

Answer: <https://biology-forums.com/index.php?topic=815568>

Question 105

Your firm is planning to invest in a new power generation system. Galt Industries is an all equity firm that specializes in this business. Suppose Galt's equity beta is 0.75, the risk-free rate is 3%, and the market risk premium is 6%. If your firm's project is all equity financed, then your estimate of your cost of capital is closest to:

- A) 5.25%
- B) 6.00%
- C) 6.75%
- D) 7.50%

Answer: <https://biology-forums.com/index.php?topic=815712>

Question 106

A 4 year default free security with a face value of \$1000 and an annual coupon rate of 5.25% will trade:

- A) at a premium.
- B) at par.
- C) at a discount.
- D) There is insufficient information provided to answer this question.

Answer: <https://biology-forums.com/index.php?topic=815039>

Question 107

If Wyatt Oil distributes the \$70 million as a dividend, then its debt-to-equity ratio after the dividend will be closest to:

- A) 0.7
- B) 0.9
- C) 1.0
- D) 1.1

Answer: <https://biology-forums.com/index.php?topic=816155>

Question 108

Which of the following organization forms accounts for the most revenue?

- A) "S" corporation
- B) Limited partnership
- C) "C" corporation
- D) Limited liability company

Answer: <https://biology-forums.com/index.php?topic=814571>

Question 109

The amount of your original loan is closest to:

- A) \$14,808
- B) \$22,212
- C) \$32,000
- D) \$37,020

Answer: <https://biology-forums.com/index.php?topic=814916>

Question 110

Which of the following stocks represent buying opportunities?

1. Taggart Transcontinental
2. Rearden Metal
3. Wyatt Oil
4. Nielson Motors

- A) 1 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) 2 and 4 only

Answer: <https://biology-forums.com/index.php?topic=815751>

Question 111

Which of the following statements is FALSE?

- A) The costs of selling assets below their value are greatest for firms with assets that lack competitive, liquid markets.
- B) Firms in financial distress tend to have difficulty collecting money that is owed to them.
- C) Suppliers may be unwilling to provide a firm with inventory if they fear they will not be paid.
- D) The loss of customers is likely to be large for producers of raw materials (such as sugar or aluminum), as the value of these goods, once delivered, depends on the seller's continued success.

Answer: <https://biology-forums.com/index.php?topic=816053>

Question 112

Assume that EGI decides to raise the \$100 million through the issuance of new shares prior to the release of the new video game. EGI's share price following the release of the new video game will be closest to:

- A) \$18.00
- B) \$19.00
- C) \$20.00
- D) \$16.00

Answer: <https://biology-forums.com/index.php?topic=816136>

Question 113

The effective annual rate for a credit card that charges a 19.9% APR compounded daily is closest to:

- A) 18.15%
- B) 19.9%

C) 22.0%

D) 24.2%

Answer: <https://biology-forums.com/index.php?topic=814902>

Question 114

The level of incremental sales associated with introducing the new one hour photo service is closest to:

A) \$90,000

B) \$150,000

C) \$60,000

D) \$120,000

Answer: <https://biology-forums.com/index.php?topic=815188>

Question 115

Due to a pre-existing contract, Recycle America Inc. has the opportunity to acquire 10,000 pounds of scrap aluminum and 2500 pounds of scrap lead for \$10,750. If the current market price for scrap aluminum is \$0.83 per pound and the current market price for lead is \$1.06 per pound, then the added benefit (cost) to you if you acquire this metal is:

A) (\$200)

B) \$200

C) (\$1925)

D) \$1925

Answer: <https://biology-forums.com/index.php?topic=814710>

Question 116

Which of the following statements is FALSE?

A) Forward rates tend not to be good predictors of future spot rates.

B) Given the risk associated with interest rate changes, corporate managers require tools to help manage this risk.

C) One of the most important tools to manage the risk of interest rate changes are interest rate forward contracts.

D) A spot rate is an interest rate that we can guarantee today for a loan or investment that will occur in the future.

Answer: <https://biology-forums.com/index.php?topic=815075>

Question 117

Sovereign debt is:

A) debt issued by national governments.

B) debt denominated in sovereigns.

C) always riskless.

D) debt issued by Greece.

Answer: <https://biology-forums.com/index.php?topic=815067>

Question 118

Assuming that Tom wants to maintain the current expected return on his portfolio, then the minimum volatility that Tom could achieve by investing in the market portfolio and risk-free investment is closest to:

A) 20%

B) 25%

C) 22%

D) 18%

Answer: <https://biology-forums.com/index.php?topic=815581>

Question 119

Suppose that you have invested \$30,000 invested in the market portfolio. Then the amount that you have invested in Wyatt Oil is closest to:

A) \$4500

B) \$6000

C) \$7715

D) \$9000

Answer: <https://biology-forums.com/index.php?topic=815652>

Question 120

Epiphany would like to know how sensitive the project's NPV is to changes in the discount rate. How much can the discount rate vary before the NPV reaches zero?

A) 7.14%

B) 19.14%

- C) 12.0%
- D) 0%

Answer: <https://biology-forums.com/index.php?topic=815264>

Question 121

Consider a bond that pays \$1000 in one year. Suppose that the market interest rate for savings is 8%, but the interest rate for borrowing is 10%. The price range that this bond must trade in a normal market if no arbitrage opportunities exist is closest to:

- A) \$909 to \$917
- B) \$909 to \$926
- C) \$917 to \$926
- D) \$909 to \$1000

Answer: <https://biology-forums.com/index.php?topic=814792>

Question 122

Kinston's current share price is closest to:

- A) \$20.40
- B) \$9.40
- C) \$11.00
- D) \$10.00

Answer: <https://biology-forums.com/index.php?topic=816036>

Question 123

Which of the following statements is FALSE?

- A) Since the publication of their original paper, Modigliani and Miller's ideas have greatly influenced finance research and practice.
- B) Proposition I was one of the first arguments to show that the Law of One Price could have strong implications for security prices and firm values in a competitive market; it marks the beginning of the modern theory of corporate finance.
- C) The conservation of value principle applies only to questions of debt versus equity or capital structure.
- D) The conservation of value principle for financial markets states that with perfect capital markets, financial transactions neither add nor destroy value, but instead represent a repackaging of risk (and therefore return).

Answer: <https://biology-forums.com/index.php?topic=815929>

Question 124

Suppose you plan on purchasing Von Bora stock in one year, right after the \$1.40 dividend is paid. You then plan on selling your stock at the end of year two, right after the \$1.50 dividend is paid. The dividend yield that you will receive on your investment is closest to:

- A) 5.75%
- B) 6.50%
- C) 6.25%
- D) 4.00%

Answer: <https://biology-forums.com/index.php?topic=815307>

Question 125

What is the Beta for a type I firm?

- A) 1.0
- B) 0.75
- C) 0.0
- D) 1.5

Answer: <https://biology-forums.com/index.php?topic=815454>

Question 126

Portfolio "C":

- A) is less risky than the market portfolio.
- B) has a relatively lower expected return than predicted.
- C) is underpriced.
- D) has a negative alpha.

Answer: <https://biology-forums.com/index.php?topic=815788>

Question 127

Which of the following formulas is INCORRECT?

- A) $P_0 = + + \dots +$

- B) $P_0 =$
- C) $rE =$
- D) $P_0 =$

Answer: <https://biology-forums.com/index.php?topic=815300>

Question 128

Which of the following is one unintended consequence of the federal bailouts in response to the 2008 financial crisis?

- A) Bondholders will charge equity holders for the risk of this abuse.
- B) Equity holders will credibly commit not to take excessive risk by agreeing to very strong bond covenants.
- C) Lenders to corporations considered "too big to fail" may presume they have an implicit government guarantee, thus lowering their incentives to insist on strong covenants.
- D) Managers who earned large bonuses when their businesses did well did not need to repay those bonuses later when things turned sour.

Answer: <https://biology-forums.com/index.php?topic=816110>

Question 129

Which of the following is NOT an investment likely to be found in any proxy for the market portfolio?

- A) Human capital
- B) Stocks
- C) Bonds
- D) Precious metals

Answer: <https://biology-forums.com/index.php?topic=815799>

Question 130

Explain how having different interest rates for borrowing and lending affects the CAPM and the SML.

Answer: <https://biology-forums.com/index.php?topic=815640>

Question 131

Assuming that Novartis AG (NVS) has an EPS of \$3.35, based upon the P/E ratios for its competitors, the highest expected stock price for Novartis is closest to:

- A) \$31.86
- B) \$44.35
- C) \$51.09
- D) \$62.60

Answer: <https://biology-forums.com/index.php?topic=815347>

Question 132

Which of the following formulas regarding NPV is INCORRECT?

- A) $NPV + PV(\text{benefits}) = PV(\text{Cost})$
- B) $NPV + PV(\text{costs}) = PV(\text{benefits})$
- C) $NPV = PV(\text{All project cash flows})$
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=814744>

Question 133

Which of the following statements is FALSE?

- A) The payback rule is useful in cases where the cost of making an incorrect decision might not be large enough to justify the time required for calculating the NPV.
- B) The payback rule is reliable because it considers the time value of money and depends on the cost of capital.
- C) For most investment opportunities, expenses occur initially and cash is received later.
- D) Fifty percent of firms surveyed reported using the payback rule for making decisions.

Answer: <https://biology-forums.com/index.php?topic=815126>

Question 134

You want to maximize your expected return without increasing your risk. Without increasing your volatility beyond its current 10%, the maximum expected return you could earn is closest to:

- A) .12.0%
- B) 12.5%
- C) 13.4%
- D) 15.0%

Answer: <https://biology-forums.com/index.php?topic=815542>

Question 135

Wyatt Oil has 25 million shares outstanding and has a marginal corporate tax rate of 40%. Wyatt Oil announces that it will payout \$40 million in cash to investors through a special dividend. Shareholders had previously assumed that Wyatt Oil would retain this excess cash permanently. The amount that Wyatt Oil's share price can be expected to change upon this announcement is closest to:

- A) \$0.56
- B) \$0.64
- C) \$0.96
- D) \$1.56

Answer: <https://biology-forums.com/index.php?topic=815984>

Question 136

The expected return on the market portfolio (which is a 50-50 combination of the value and growth portfolios) is closest to:

- A) 12.0%
- B) 13.5%
- C) 15.0%
- D) 19.0%

Answer: <https://biology-forums.com/index.php?topic=815558>

Question 137

Wyatt Oil is contemplating issuing a 20-year bond with semiannual coupons, a coupon rate of 8%, and a face value of \$1000. Wyatt Oil believes it can get a AAA rating from Standard and Poor's for this bond issue. If Wyatt Oil is successful in getting a AAA rating, then the issue price for these bonds would be closest to:

- A) \$891
- B) \$901
- C) \$1000
- D) \$1107

Answer: <https://biology-forums.com/index.php?topic=815055>

Question 138

Which of the following statements is FALSE?

- A) As firms mature, their earnings exceed their investment needs and they begin to pay dividends.
- B) Total return equals earnings multiplied by the dividend payout rate.
- C) Cutting the firm's dividend to increase investment will raise the stock price if, and only if, the new investments have a positive NPV.
- D) We cannot use the constant dividend growth model to value the stock of a firm with rapid or changing growth.

Answer: <https://biology-forums.com/index.php?topic=815275>

Question 139

The British government has just issued a new consol bond that sells for £1000 and pays interest of 8%. The annual interest payment on this bond must be:

- A) £80
- B) £8
- C) £1000
- D) £12,500

Answer: <https://biology-forums.com/index.php?topic=814880>

Question 140

Galt Industries has 125 million shares outstanding and has a marginal corporate tax rate of 35%. Galt announces that it will use \$75 million in excess cash to repurchase shares. Shareholders had previously assumed that Galt would retain this excess cash permanently. The amount Galt's share price can be expected to change upon this announcement is closest to:

- A) \$0.21
- B) \$0.24
- C) \$0.36
- D) \$0.39

Answer: <https://biology-forums.com/index.php?topic=815985>

Question 141

Which of the following statements is FALSE?

- A) According to the provisions of the 1978 Bankruptcy Reform Act, U.S. firms can file for two forms of bankruptcy protection: Chapter 11 or Chapter 13.

B) The Chapter 11 reorganization plan specifies the treatment of each creditor of the firm. In addition to cash payment, creditors may receive new debt or equity securities of the firm. The value of cash and securities is generally less than the amount each creditor is owed, but more than the creditors would receive if the firm were shut down immediately and liquidated.

C) In the more common form of bankruptcy for large corporations, Chapter 11 reorganization, all pending collection attempts are automatically suspended, and the firm's existing management is given the opportunity to propose a reorganization plan.

D) While developing a Chapter 11 reorganization plan, management continues to operate the business.

Answer: <https://biology-forums.com/index.php?topic=816048>

Question 142

The likely effect of a country printing additional currency to pay its debts is:

- A) high inflation
- B) devaluation of the currency
- C) appreciation of the currency
- D) A and B

Answer: <https://biology-forums.com/index.php?topic=815071>

Question 143

Assume that EGI decides to wait until after the release of the new video game before they raise the \$100 million through the issuance of new shares. EGI's share price following the release of the new video game will be closest to:

- A) \$18.00
- B) \$20.00
- C) \$16.00
- D) \$19.00

Answer: <https://biology-forums.com/index.php?topic=816137>

Question 144

The number of potential IRRs that exist for Rearden's mining operation is equal to:

- A) 0
- B) 1
- C) 2
- D) 12

Answer: <https://biology-forums.com/index.php?topic=815102>

Question 145

Assuming that Palin's cost of capital is 10%, then the NPV of her book deal is closest to:

- A) \$2.00 million
- B) \$2.20 million
- C) \$3.00 million
- D) \$3.75 million

Answer: <https://biology-forums.com/index.php?topic=815087>

Question 146

Which of the following statements is FALSE?

- A) While firms do still pay dividends, substantial evidence shows that many firms have recognized their tax disadvantage.
- B) The fact that firms continue to issue dividends despite their tax disadvantage is often referred to as the dividend puzzle.
- C) At the end of the 1990s, dividend payments exceeded the value of repurchases for U.S. industrial firms.
- D) While evidence is indicative of the growing importance of share repurchases as a part of firms' payout policies, it also shows that dividends remain a key form of payouts to shareholders.

Answer: <https://biology-forums.com/index.php?topic=816175>

Question 147

The IRR for this project is closest to:

- A) 18.9%
- B) 22.7%
- C) 34.1%
- D) 39.1%

Answer: <https://biology-forums.com/index.php?topic=815114>

Question 148

You currently own \$100,000 worth of Wal-Mart stock. Suppose that Wal-Mart has an expected return of 14% and a volatility of 23%. The market

portfolio has an expected return of 12% and a volatility of 16%. The risk-free rate is 5%. Assuming the CAPM assumptions hold, what alternative investment has the highest possible expected return while having the same volatility as Wal-Mart? What is the expected return of this portfolio?
Answer: <https://biology-forums.com/index.php?topic=815583>

Question 149

Assume that you are 30 years old today, and that you are planning on retiring at age 65. Your current salary is \$45,000 and you expect your salary to increase at a rate of 5% per year as long as you work. To save for your retirement, you plan on making annual contributions to a retirement account. Your first contribution will be made on your 31st birthday and will be 8% of this year's salary. Likewise, you expect to deposit 8% of your salary each year until you reach age 65. At retirement (age 65) you will begin withdrawing equal annual payments to pay for your living expenses during retirement (on your 65th birthday). If you expect to die one day before your 101st birthday (Your last withdraw will be on your 100th birthday) and if the annual rate of return is 7%, then how much money will you have to spend in each of your golden years of retirement?
Answer: <https://biology-forums.com/index.php?topic=814869>

Question 150

Suppose you plan to hold Von Bora stock for only one year. Your dividend yield from holding Von Bora stock for the first year is closest to:
A) 6.0%
B) 4.0%
C) 6.5%
D) 5.5%
Answer: <https://biology-forums.com/index.php?topic=815305>

Question 151

Which of the following statements is FALSE?
A) Expected return should rise proportionately with volatility.
B) Investors would not choose to hold a portfolio that is more volatile unless they expected to earn a higher return.
C) Smaller stocks have lower volatility than larger stocks.
D) The largest stocks are typically more volatile than a portfolio of large stocks.
Answer: <https://biology-forums.com/index.php?topic=815407>

Question 152

Using the average historical excess returns for both Wyatt Oil and the Market portfolio, your estimate of Wyatt Oil's Beta is closest to:
A) 0.75
B) 0.84
C) 1.00
D) 1.19
Answer: <https://biology-forums.com/index.php?topic=815684>

Question 153

Explain why the market portfolio proxy may not be efficient.
Answer: <https://biology-forums.com/index.php?topic=815807>

Question 154

The Sarbanes-Oxley Act (SOX) overhauled incentives and the independence in the auditing process by:
A) requiring the CEO and CFO to return bonuses or profits from the sale of stock that are later shown to be due to misstated financial reports.
B) imposing large compliance costs on small companies.
C) requiring auditing firms to have long-standing relationships with their clients and receive lucrative auditing and consulting fees from them.
D) putting strict limits on the amount of non-audit fees (consulting or otherwise) that an accounting firm can earn from a firm that it audits.
Answer: <https://biology-forums.com/index.php?topic=814707>

Question 155

You are considering investing in a zero coupon bond that will pay you its face value of \$1000 in ten years. If the bond is currently selling for \$485.20, then the IRR for investing in this bond is closest to:
A) 12%
B) 8.0%
C) 7.5%
D) 10%
Answer: <https://biology-forums.com/index.php?topic=814886>

Question 156

If a project has a higher proportion of fixed to variable costs, holding the risk of its revenues constant:

- A) its beta will be lower, hence its cost of capital will be lower.
- B) its beta will be higher, hence its cost of capital will be higher.
- C) its beta will be unaffected, since beta does not measure the sensitivity of the project's cash flows to market risk.
- D) its financial leverage will be higher.

Answer: <https://biology-forums.com/index.php?topic=815731>

Question 157

The price per share of Iota if they decide not to use the \$200 million to expand and hold the cash instead is closest to:

- A) \$16.50
- B) \$16.80
- C) \$19.00
- D) \$13.75

Answer: <https://biology-forums.com/index.php?topic=816217>

Question 158

Which of the following statements is FALSE?

- A) In a share repurchase, the firm uses excess cash to buy back its own stock.
- B) The discounted free cash flow model begins by determining the value of the firm's equity.
- C) The discounted free cash flow model focuses on the cash flows to all of the firm's investors, both debt and equity holders, and allows us to avoid estimating the impact of the firm's borrowing decisions on earnings.
- D) In recent years, an increasing number of firms have replaced dividend payouts with share repurchases.

Answer: <https://biology-forums.com/index.php?topic=815318>

Question 159

Ideko's Accounts Receivable Days is closest to:

- A) 84 days
- B) 95 days
- C) 90 days
- D) 75 days

Answer: <https://biology-forums.com/index.php?topic=816446>

Question 160

Assuming that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs, the initial value of MI's equity without leverage is closest to:

- A) \$150 million
- B) \$147 million
- C) \$140 million
- D) \$133 million

Answer: <https://biology-forums.com/index.php?topic=816060>

Question 161

The unlevered beta for Oakley is closest to:

- A) 0.70
- B) 1.50
- C) 1.00
- D) 0.60

Answer: <https://biology-forums.com/index.php?topic=816463>

Question 162

Assuming that Luther's bonds receive a AAA rating, the number of bonds that Luther must issue to raise the needed \$25 million is closest to:

- A) 24,655
- B) 25,000
- C) 24,477
- D) 26,681

Answer: <https://biology-forums.com/index.php?topic=815063>

Question 163

Consider an ETF that is made up of one share each of IBM, MRK, and C. The current quote for this ETF currently is \$162.75 (bid) \$162.80 (ask). What should you do?

Answer: <https://biology-forums.com/index.php?topic=814798>

Question 164

Suppose that because of the large need for steel in building railroad infrastructure, Taggart Transcontinental and Rearden Metal decide to form into one large conglomerate. Your estimate of the asset beta for this new conglomerate is closest to:

- A) 0.42
- B) 0.59
- C) 0.66
- D) 0.68

Answer: <https://biology-forums.com/index.php?topic=815708>

Question 165

The depreciation tax shield for the Sisyphian Corporation's project in the first year is closest to:

- A) \$8000
- B) \$3500
- C) \$2800
- D) \$5200

Answer: <https://biology-forums.com/index.php?topic=815195>

Question 166

Nielson's equity cost of capital is closest to:

- A) 11.3%
- B) 12.2%
- C) 14.0%
- D) 14.4%

Answer: <https://biology-forums.com/index.php?topic=816386>

Question 167

Consider the following timeline detailing a stream of cash flows:

If the current market rate of interest is 10%, then the present value of this stream of cash flows is closest to:

- A) \$674
- B) \$600
- C) \$460
- D) \$287

Answer: <https://biology-forums.com/index.php?topic=814828>

Question 168

Which of the following statements is FALSE?

- A) The bond certificate typically specifies that the coupons will be paid periodically until the maturity date of the bond.
- B) The bond certificate indicates the amounts and dates of all payments to be made.
- C) The only cash payments the investor will receive from a zero coupon bond are the interest payments that are paid up until the maturity date.
- D) Usually the face value of a bond is repaid at maturity.

Answer: <https://biology-forums.com/index.php?topic=814964>

Question 169

Assuming that the discount rate for project A is 16% and the discount rate for B is 15%, then given that these are mutually exclusive projects, which project would you take and why?

Answer: <https://biology-forums.com/index.php?topic=815149>

Question 170

Which of the following statements is FALSE?

- A) If indeed alphas are positive, it is possible that the positive alpha trading strategies contain risk that investors are unwilling to bear but the CAPM does not capture.
- B) If indeed alphas are positive, it is possible that the costs of implementing investment strategies are larger than the NPVs of undertaking them.
- C) If indeed alphas are positive, then investors have to be systematically ignoring negative-NPV investment opportunities.
- D) The only way a positive NPV investment opportunity can exist in a market is if some barrier to entry restricts competition.

Answer: <https://biology-forums.com/index.php?topic=815801>

Question 171

What is the overall expected payoff to Wildcat from the speculative oil lease deal?

- A) \$360 million
- B) \$275 million
- C) \$85 million
- D) \$160 million

Answer: <https://biology-forums.com/index.php?topic=816099>

Question 172

Assuming that Novartis AG (NVS) has an EPS of \$3.35, based upon the average P/E ratio for its competitors, Novartis' stock price is closest to:

- A) \$13.00
- B) \$31.86
- C) \$43.47
- D) \$44.35

Answer: <https://biology-forums.com/index.php?topic=815345>

Question 173

What is an opportunity cost? Should it be included in the incremental cash flows for a project? Why or why not?

Answer: <https://biology-forums.com/index.php?topic=815198>

Question 174

In which years were dividends tax disadvantaged?

- A) 1987 - 2002
- B) 1987, 1993 - 2002
- C) 1987, 1991 - 2002
- D) 1988 - 1990, 2003 - 2009

Answer: <https://biology-forums.com/index.php?topic=816171>

Question 175

Assume that the risk-free interest rate is 10%. Rank each of the four projects from most desirable to least desirable based upon NPV. Which project would you invest in first? Are there any projects that you wouldn't invest in?

Answer: <https://biology-forums.com/index.php?topic=814755>

Question 176

Which of the following statements regarding the valuing of costs and benefits is NOT correct?

- A) The first step in evaluating a project is to identify its costs and benefits.
- B) In the absence of competitive markets, we can use one-sided prices to determine exact cash values.
- C) Competitive market prices allow us to calculate the value of a decision without worrying about the tastes or opinions of the decision maker.
- D) Because competitive markets exist for most commodities and financial assets, we can use them to determine cash values and evaluate decisions in most situations.

Answer: <https://biology-forums.com/index.php?topic=814711>

Question 177

Assume that in addition to 1.25 billion common shares outstanding, Luther has stock options given to employees valued at \$2 billion. After the repurchase how many shares will Luther have outstanding?

- A) 1.0 billion
- B) 1.2 billion
- C) 0.75 billion
- D) 1.1 billion

Answer: <https://biology-forums.com/index.php?topic=815876>

Question 178

Assume that you are an investor with the disposition effect and you bought each of these stocks in January. Suppose that it is currently the end of June, which stocks are you most inclined to hold?

1. Taggart Transcontinental
2. Rearden Metal
3. Wyatt Oil
4. Nielson Motors

- A) 1 only
- B) 4 only
- C) 1 and 3 only

D) 2 and 4 only

Answer: <https://biology-forums.com/index.php?topic=815765>

Question 179

Which of the following statements regarding the timeline is FALSE?

- A) Date 1 is the end of the first year.
- B) Date 0 is the beginning of the first year.
- C) The space between date 0 and date 1 represents the time period between two specific dates.
- D) You will find the timeline most useful in tracking cash flows if you interpret each point on the timeline as a period or interval of time.

Answer: <https://biology-forums.com/index.php?topic=814803>

Question 180

Which of the following statements is FALSE?

- A) The variance increases with the magnitude of the deviations from the mean.
- B) The variance is the expected squared deviation from the mean.
- C) Two common measures of the risk of a probability distribution are its variance and standard deviation.
- D) If the return is riskless and never deviates from its mean, the variance is equal to one.

Answer: <https://biology-forums.com/index.php?topic=815370>

Question 181

Nielson's EPS if they choose not to change their capital structure is closest to:

- A) \$2.00
- B) \$2.30
- C) \$2.50
- D) \$2.90

Answer: <https://biology-forums.com/index.php?topic=815914>

Question 182

You work for a pharmaceutical company that has developed a new drug. The patent on the drug will last for 17 years. You expect that the drug will produce cash flows of \$10 million in its first year and that this amount will grow at a rate of 4% per year for the next 17 years. Once the patent expires, other pharmaceutical companies will be able to produce generic equivalents of your drug and competition will drive any future profits to zero. If the interest rate is 12% per year, then the present value of producing this drug is closest to:

- A) \$71 million
- B) \$90 million
- C) \$170 million
- D) \$105 million

Answer: <https://biology-forums.com/index.php?topic=814858>

Question 183

Given that Rose issues new debt of \$50 million initially to fund the acquisition, the total value of this acquisition using the APV method is equal to?

Answer: <https://biology-forums.com/index.php?topic=816376>

Question 184

Which stock has the highest systematic risk?

- A) Merck since it has a higher Beta
- B) Exxon-Mobil since it has a lower beta
- C) Exxon-Mobil since it has a higher volatility
- D) Merck since it has a lower volatility

Answer: <https://biology-forums.com/index.php?topic=815467>

Question 185

Consider the following timeline:

If the current market rate of interest is 9%, then the present value of this timeline as of year 0 is closest to:

- A) \$492
- B) \$637
- C) \$600
- D) \$400

Answer: <https://biology-forums.com/index.php?topic=814823>

Question 186

Consider the following timeline:

If the current market rate of interest is 8%, then the value of the cash flows as of year 1 is closest to:

- A) \$0
- B) \$1003
- C) \$540
- D) \$77

Answer: <https://biology-forums.com/index.php?topic=814824>

Question 187

If you want to value a firm but don't want to explicitly forecast its dividends, share repurchases, or its use of debt, what is the simplest model for you to use?

- A) Discounted free cash flow model
- B) Dividend discount model
- C) Enterprise value model
- D) Total payout model

Answer: <https://biology-forums.com/index.php?topic=815317>

Question 188

The ranking of the four alternatives from most valuable to least valuable if the interest rate is 6% per year would be:

- A) 1, 2, 3, 4
- B) 1, 3, 2, 4
- C) 4, 3, 1, 2
- D) 3, 4, 2, 1

Answer: <https://biology-forums.com/index.php?topic=814816>

Question 189

Which of the following statements is FALSE?

- A) Because capital expenditures can vary substantially from period to period, most practitioners rely on enterprise value to free cash flow multiples.
- B) Common multiples to consider are enterprise value to EBIT, EBITDA, and free cash flow.
- C) If two stocks have the same payout and EPS growth rates as well as equivalent risk, then they should have the same P/E ratio.
- D) Looking at enterprise value as a multiple of sales can be useful if it is reasonable to assume that the firms will maintain similar margins in the future.

Answer: <https://biology-forums.com/index.php?topic=815343>

Question 190

If a firm's excess cash holdings are greater than its debt, using net debt as the measure of leverage will result in:

- A) its unlevered beta and cost of capital equalling zero.
- B) its unlevered beta and cost of capital being greater than its equity beta and cost of capital.
- C) the risk of the firm's equity being increased by its cash holdings in excess of its operating needs.
- D) the risk of the firm's debt being increased by its cash holdings in excess of its operating needs.

Answer: <https://biology-forums.com/index.php?topic=815720>

Question 191

Assuming that Tom wants to maintain the current expected return on his portfolio, then the amount that Tom should invest in the market portfolio to minimize his volatility is closest to:

- A) 100%
- B) 90%
- C) 125%
- D) 110%

Answer: <https://biology-forums.com/index.php?topic=815580>

Question 192

The yield to maturity for the three year zero-coupon bond is closest to:

- A) 5.4%
- B) 5.8%
- C) 5.6%
- D) 6.0%

Answer: <https://biology-forums.com/index.php?topic=814987>

Question 193

Assume that MM's perfect capital market conditions are met and that you can borrow and lend at the same 5% rate as With. You have \$5000 of your own money to invest and you plan on buying With stock. Using homemade (un)leverage, how much do you need to invest at the risk-free rate so that the payoff of your account will be the same as a \$5000 investment in Without stock?

- A) \$5000
- B) \$0
- C) \$2500
- D) \$4000

Answer: <https://biology-forums.com/index.php?topic=815869>

Question 194

Which of the following statements is FALSE?

- A) The imperfections in the CAPM may be critical in the context of capital budgeting and corporate finance, where errors in estimating the cost of capital are likely to be far more important than small discrepancies in the project cash flows.
- B) To estimate the expected market risk premium we can look at the historical average excess return of the market over the risk free interest rate.
- C) The highest beta stocks have tended to under perform what the CAPM predicts.
- D) Given an assessment of an index's future cash flows, we can estimate the expected return of the market by solving for the discount rate that is consistent with the current level of the index.

Answer: <https://biology-forums.com/index.php?topic=815746>

Question 195

Luther's Unlevered cost of capital is closest to:

- A) 8.0%
- B) 8.5%
- C) 9.0%
- D) 6.4%

Answer: <https://biology-forums.com/index.php?topic=816272>

Question 196

Which of the following statements is FALSE?

- A) A momentum strategy is one where you buy stocks that have had low past returns and (short) sell stocks that have had high past returns.
- B) Over the years since the discovery of the CAPM, it has become increasingly clear to researchers and practitioners alike that forming portfolios based on market capitalization, book-to-market ratios, and past returns, one can construct trading strategies that have a positive alpha.
- C) Portfolios containing firms with the highest realized returns over the previous six months have positive alphas over the next six months.
- D) If the market portfolio is not efficient, then a portfolio of small stocks will likely have positive alphas.

Answer: <https://biology-forums.com/index.php?topic=815785>

Question 197

The number of new shares that Kinston must issue to raise the capital needed to pay its debt obligation is closest to:

- A) 4.3 million
- B) 4.7 million
- C) 5.0 million
- D) 4.0 million

Answer: <https://biology-forums.com/index.php?topic=816037>

Question 198

The beta for the risk free investment is closest to:

- A) 1
- B) 0
- C) Unable to answer this question without knowing the risk free rate
- D) Unable to answer this question without knowing the markets volatility

Answer: <https://biology-forums.com/index.php?topic=815590>

Question 199

The profitability index for project A is closest to:

- A) 0.12
- B) 21.65
- C) 0.17
- D) 12.04

Answer: <https://biology-forums.com/index.php?topic=815154>

Question 200

The required return for Sisyphus's new project is closest to:

- A) 24%
- B) 14%
- C) 18%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=815551>

Question 201

You have an \$8000 balance on your credit card, which charges 18% interest annually (1% per month). If you can afford to pay \$100 per month, how many months will it take to pay the credit card in full?

- A) 170 months
- B) 14 months
- C) 162 months
- D) You will never get the card paid off at that rate.

Answer: <https://biology-forums.com/index.php?topic=814891>

Question 202

Assuming that college costs continue to increase an average of 4% per year and that all her college savings are invested in an account paying 7% interest, then the amount of money she will need to have available at age 18 to pay for all four years of her undergraduate education is closest to:

Answer: <https://biology-forums.com/index.php?topic=814867>

Question 203

Which of the following is true of asset betas?

- A) Asset betas are expected to vary greatly within firms in the same industry.
- B) Businesses that are less sensitive to market and economic conditions tend to have higher asset betas than more cyclical industries.
- C) Businesses that are less sensitive to market and economic conditions tend to have lower asset betas than more cyclical industries.
- D) A and B are correct.

Answer: <https://biology-forums.com/index.php?topic=815721>

Question 204

Which of the following statements is FALSE?

- A) The yield to maturity of a coupon bond is a weighted average of the yields on the zero-coupon bonds.
- B) If the zero-coupon yield curve is downward sloping, the yield to maturity will decrease with the coupon rate.
- C) The information in the zero-coupon yield curve is sufficient to price all other risk-free bonds.
- D) When the yield curve is flat, all zero-coupon and coupon-paying bonds will have the same yield, independent of their maturities and coupon rates.

Answer: <https://biology-forums.com/index.php?topic=815028>

Question 205

Which of the following formulas is INCORRECT?

- A) Variance of an equally Weighted Portfolio = $(1 - \rho)(\text{Average Variance of Individual Stocks}) + \rho(\text{Average covariance between the stocks})$
- B) Variance of a portfolio =
- C) Variance of a portfolio =
- D) Variance of a portfolio =

Answer: <https://biology-forums.com/index.php?topic=815510>

Question 206

Taggart Transcontinental shares are currently trading at \$200 per share. The split ratio needed to bring the stock price down to \$80 is:

- A) 2:1
- B) 3:1
- C) 2:5
- D) 5:2

Answer: <https://biology-forums.com/index.php?topic=816230>

Question 207

What range for the market value of equity for Ideko is implied by the range of P/E multiples for the comparable firms?

Answer: <https://biology-forums.com/index.php?topic=816438>

Question 208

Which of the following statements is FALSE?

- A) All investors should demand the same efficient portfolio of securities in the same proportions.
- B) The Capital Asset Pricing Model (CAPM) allows corporate executives to identify the efficient portfolio (of risky assets) by using knowledge of the expected return of each security.
- C) If investors hold the efficient portfolio, then the cost of capital for any investment project is equal to its required return calculated using its beta with the efficient portfolio.
- D) The CAPM identifies the market portfolio as the efficient portfolio.

Answer: <https://biology-forums.com/index.php?topic=815661>

Question 209

In a world with taxes, which of the following is the rate we should use to evaluate an all-equity financed project with the same risk as the firm?

- A) The weighted-average cost of capital
- B) The pre-tax WACC
- C) The cost of equity
- D) The cost of debt

Answer: <https://biology-forums.com/index.php?topic=815733>

Question 210

The unlevered value of Aardvark's new project is closest to:

- A) \$205
- B) \$100
- C) \$164
- D) \$202

Answer: <https://biology-forums.com/index.php?topic=816408>

Question 211

Assuming your cost of capital is 6 percent, based on the present value of your expected wage you should:

- A) accept Rearden's offer since the PV of your expected wage would be approximately \$6000 higher.
- B) accept Rearden's offer since the PV of your expected wage would be approximately \$8000 lower.
- C) accept Rearden's offer since the PV of your expected wage would be approximately \$8000 higher.
- D) accept Wyatt's offer since the PV of your expected wage would be approximately \$6000 higher.

Answer: <https://biology-forums.com/index.php?topic=816044>

Question 212

The price per share of this ETF in a normal market is closest to:

- A) \$800
- B) \$1001
- C) \$1067
- D) \$1267

Answer: <https://biology-forums.com/index.php?topic=814778>

Question 213

What are some implicit assumptions that are made when valuing a firm using multiples based on comparable firms?

Answer: <https://biology-forums.com/index.php?topic=815354>

Question 214

According to MM Proposition 1, the stock price for With is closest to:

- A) \$8.00
- B) \$24.00
- C) \$6.00
- D) \$12.00

Answer: <https://biology-forums.com/index.php?topic=815866>

Question 215

Which of the following investments offered the lowest overall return over the past eighty years?

- A) Small stocks
- B) Treasury Bills

- C) S&P 500
- D) Corporate bonds

Answer: <https://biology-forums.com/index.php?topic=815366>

Question 216

Suppose that you borrow only \$45,000 in financing the project. According to MM proposition II, calculate the firm's equity cost of capital.

Answer: <https://biology-forums.com/index.php?topic=815912>

Question 217

The overall value of Wyatt Oil (in \$ millions) is closest to:

- A) \$25,000
- B) \$18,846
- C) \$31,250
- D) \$15,000

Answer: <https://biology-forums.com/index.php?topic=815726>

Question 218

Assuming that this bond trades for \$903, then the YTM for this bond is closest to:

- A) 8.0%
- B) 6.8%
- C) 9.9%
- D) 9.2%

Answer: <https://biology-forums.com/index.php?topic=814985>

Question 219

Assume that you have \$100,000 to invest and you are interested in creating a value-weighted portfolio of these four stocks. The percentage of the shares outstanding of Boeing that you would hold in your portfolio is closest to:

- A) .000018%
- B) .000020%
- C) .000024%
- D) .000031%

Answer: <https://biology-forums.com/index.php?topic=815676>

Question 220

Suppose that you are holding a market portfolio and you have invested \$18,000 in Taggart Transcontinental. The number of shares of Wyatt Oil that you hold is closest to:

- A) 90 shares
- B) 460 shares
- C) 615 shares
- D) 770 shares

Answer: <https://biology-forums.com/index.php?topic=815655>

Question 221

When using the book value of equity, the debt to equity ratio for Luther in 2009 is closest to:

- A) 0.43
- B) 2.29
- C) 2.98
- D) 3.57

Answer: <https://biology-forums.com/index.php?topic=814662>

Question 222

Absent any other trading frictions or news, Rearden's share price just after the dividend is paid will be closest to:

- A) \$35
- B) \$36
- C) \$37
- D) \$40

Answer: <https://biology-forums.com/index.php?topic=816181>

Question 223

Which of the following statements is FALSE?

- A) A value-weighted portfolio is an equal-ownership portfolio: We hold an equal fraction of the total number of shares outstanding of each security in the portfolio.
- B) When buying a value-weighted portfolio, we end up purchasing the same percentage of shares of each firm.
- C) To maintain a value-weighted portfolio, we do not need to trade securities and rebalance the portfolio unless the number of shares outstanding of some security changes.
- D) In a value weighted portfolio the fraction of money invested in any security corresponds to its share of the total number of shares outstanding of all securities in the portfolio.

Answer: <https://biology-forums.com/index.php?topic=815665>

Question 224

Luther's current ratio for 2009 is closest to:

- A) 0.84
- B) 0.92
- C) 1.09
- D) 1.19

Answer: <https://biology-forums.com/index.php?topic=814664>

Question 225

Assuming Luther issues a 5:2 stock split, then the number of shares Luther will have outstanding following the split is closest to:

- A) 25.0 million
- B) 12.5 million
- C) 2.0 million
- D) 16.0 million

Answer: <https://biology-forums.com/index.php?topic=816236>

Question 226

The credit spread of the B corporate bond is closest to:

- A) 1.6%
- B) 0.8%
- C) 1.0%
- D) 1.4%

Answer: <https://biology-forums.com/index.php?topic=815059>

Question 227

Which of the following statements is FALSE?

- A) An investor's preferences will determine only how much to invest in the tangent or efficient portfolio versus the risk-free investment.
- B) Conservative investors will invest a small amount in the tangent or efficient portfolio, choosing a portfolio on the line near the risk-free investment.
- C) Only aggressive investors will choose to hold the portfolio of risky assets, the tangent or efficient portfolio.
- D) Aggressive investors will invest more in the tangent portfolio choosing a portfolio that is near the tangent portfolio or even beyond it by buying stocks on margin.

Answer: <https://biology-forums.com/index.php?topic=815535>

Question 228

If the appropriate interest rate is 8%, then present value of \$500 paid at the end of each of the next 40 years is closest to:

- A) \$23
- B) \$5962
- C) \$6439
- D) \$20,0000

Answer: <https://biology-forums.com/index.php?topic=814861>

Question 229

Which of the following statements is FALSE?

- A) Nonzero alphas may merely indicate that the wrong market proxy is being used; they do not necessarily indicate forgone positive NPV investment opportunities.
- B) The true market portfolio contains much more than just stocks, it includes bonds, real estate, art, precious metals, and any other investment vehicles available.
- C) If the true market portfolio is efficient, but the proxy portfolio is not highly correlated with the true market portfolio, then the true market portfolio will not be efficient and stocks will have nonzero alphas.
- D) Much of the investment wealth cannot be included in the proxy for the market portfolio since it does not trade in competitive markets.

Answer: <https://biology-forums.com/index.php?topic=815804>

Question 230

Two separate firms are considering investing in this project. Firm unlevered plans to fund the entire \$80,000 investment using equity, while firm levered plans to borrow \$45,000 at the risk-free rate and use equity to finance the remainder of the initial investment. Construct a table detailing the percentage returns to the equity holders of both the levered and unlevered firms for both the weak and strong economy.

Answer: <https://biology-forums.com/index.php?topic=815847>

Question 231

If Luther decides to pay the dividend immediately the dividend per share will be closest to:

- A) \$1.05
- B) \$5.25
- C) \$5.00
- D) \$4.75

Answer: <https://biology-forums.com/index.php?topic=816209>

Question 232

With the proper changes it is believed that Ideko's credit policies will allow for an account receivables days of 60. The forecasted accounts receivable for Ideko in 2006 is closest to:

- A) \$19,690
- B) \$16,970
- C) \$22,710
- D) \$14,525

Answer: <https://biology-forums.com/index.php?topic=816358>

Question 233

What is the standard deviation of Big Cure's average net income for their new blockbuster drug?

- A) \$0
- B) \$1 billion
- C) \$100 million
- D) \$500 million

Answer: <https://biology-forums.com/index.php?topic=815422>

Question 234

Since your first birthday, your grandparents have been depositing \$1000 into a savings account on every one of your birthdays. The account pays 4% interest annually. Immediately after your grandparents make the deposit on your 18th birthday, the amount of money in your savings account will be closest to:

- A) \$25,645
- B) \$36,465
- C) \$12,659
- D) \$18,000

Answer: <https://biology-forums.com/index.php?topic=814853>

Question 235

If the current rate of interest is 8% APR, then the future value of an investment that pays \$500 every two years and lasts 20 years is closest to:

- A) \$11,000
- B) \$10,661
- C) \$22,881
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=814879>

Question 236

Which of the following statements is FALSE?

- A) If there is uncertainty regarding EBIT, then with a higher interest expense there is a greater risk that interest will exceed EBIT.
- B) Even for a firm with positive earnings, growth will affect the optimal leverage ratio.
- C) From a tax perspective, the firm's optimal level of debt is proportional to its current earnings.
- D) The optimal proportion of debt in the firm's capital structure will be higher, the higher the firm's growth rate.

Answer: <https://biology-forums.com/index.php?topic=816024>

Question 237

Suppose the interest rate is 9% APR with monthly compounding. Then the present value of an annuity that pays \$250 every three months for the next five years is closest to:

- A) \$2280
- B) \$3985
- C) \$3990
- D) \$3995

Answer: <https://biology-forums.com/index.php?topic=814906>

Question 238

On the balance sheet, short-term debt appears:

- A) in the Stockholders' Equity section.
- B) in the Operating Expenses section.
- C) in the Current Assets section.
- D) in the Current Liabilities section.

Answer: <https://biology-forums.com/index.php?topic=814619>

Question 239

In 2005, assuming an average dividend payout ratio of 50%, the effective tax rate for equity holders was closest to:

- A) 30%
- B) 55%
- C) 45%
- D) 50%

Answer: <https://biology-forums.com/index.php?topic=816015>

Question 240

If you buy shares of Coca-Cola on the primary market:

- A) Coca-Cola receives the money because the company has issued new shares.
- B) you buy the shares from another investor who decided to sell the shares.
- C) you buy the shares from the New York Stock Exchange.
- D) you buy the shares from the Federal Reserve.

Answer: <https://biology-forums.com/index.php?topic=814603>

Question 241

Assume that Omicron uses the entire \$50 million in excess cash to pay a special dividend. The amount of the regular yearly dividends in the future is closest to:

- A) \$4.50
- B) \$5.00
- C) \$4.00
- D) \$9.00

Answer: <https://biology-forums.com/index.php?topic=816161>

Question 242

You are trying to decide between three mutually exclusive investment opportunities. The most appropriate tool for identifying the correct decision is:

- A) NPV.
- B) profitability index.
- C) IRR.
- D) incremental IRR.

Answer: <https://biology-forums.com/index.php?topic=815138>

Question 243

Consider an ETF that is made up of one share each of IBM, MRK, and C. The current quote for this ETF currently is 163.15 (bid) \$163.20 (ask). What should you do?

Answer: <https://biology-forums.com/index.php?topic=814800>

Question 244

The internal rate of return rule can result in the wrong decision if the projects being compared have:

- A) differences in scale.

- B) differences in timing.
- C) differences in NPV.
- D) A and B are correct.

Answer: <https://biology-forums.com/index.php?topic=815120>

Question 245

Suppose an investment is equally likely to have a 35% return or a -20% return. The standard deviation on the return for this investment is closest to:

- A) 38.9%
- B) 0%
- C) 19.4%
- D) 27.5%

Answer: <https://biology-forums.com/index.php?topic=815379>

Question 246

Which of the following statements is FALSE?

- A) Tax rates vary by income, by jurisdiction, and by whether the stock is held in a retirement account. Because of these differences, firms may attract different groups of investors depending on their dividend policy.
- B) While many investors have a tax preference for share repurchases rather than dividends, the strength of that preference depends on the difference between the dividend tax rate and the capital gains tax rate that they face.
- C) Long-term investors are more heavily taxed on capital gains, so they would prefer dividend payments to share repurchases.
- D) One-year investors, pension funds, and other non-taxed investors have no tax preference for share repurchases over dividends, they would prefer a payout policy that most closely matches their cash needs.

Answer: <https://biology-forums.com/index.php?topic=816184>

Question 247

Wyatt Oil pays a regular dividend of \$2.50 per share. Typically the stock price drops by \$2.00 per share when the stock goes ex-dividend. Suppose the capital gains tax rate is 20%, but investors pay different tax rates on dividends. Absent transactions cost, the highest dividend tax rate of an investor who could gain from trading to capture the dividend is closest to:

- A) 0%
- B) 20%
- C) 24%
- D) 36%

Answer: <https://biology-forums.com/index.php?topic=816180>

Question 248

Based upon Ideko's Sales and Operating Cost Assumptions, what production capacity will Ideko require in 2009?

- A) 1505 units
- B) 1115 units
- C) 1323 units
- D) 1702 units

Answer: <https://biology-forums.com/index.php?topic=816350>

Question 249

Rearden's expected dividend yield is closest to:

- A) 3.40%
- B) 3.65%
- C) 4.00%
- D) 4.20%

Answer: <https://biology-forums.com/index.php?topic=815278>

Question 250

The weight on Taggart Transcontinental stock in the market portfolio is closest to:

- A) 15%
- B) 20%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=815648>

Question 251

Because of a catastrophic plane crash, the FAA announced that it is withdrawing its air worthiness certification for Fly by Night Aviation's (FBNA) new

four seat private plane. As a result FBNA's future expected free cash flows will decline by \$40 million a year for the next eight years. FBNA has 20 million shares outstanding, no debt, and an equity cost of capital of 12%. If this news is a complete surprise to investors, then the amount that FBNA's stock price should fall upon the announcement is closest to:

- A) \$2.00
- B) \$16.00
- C) \$16.70
- D) \$9.90

Answer: <https://biology-forums.com/index.php?topic=815363>

Question 252

In order for Nielson Motor's to be willing to invest, project 3 must have an NPV greater than:

- A) \$12.5 million
- B) \$15.0 million
- C) \$22.5 million
- D) \$27.0 million

Answer: <https://biology-forums.com/index.php?topic=816090>

Question 253

If you hold this bond to maturity, the internal rate of return you will earn on your investment will be closest to:

- A) 5.0%
- B) 5.6%
- C) 6.0%
- D) 8.0%

Answer: <https://biology-forums.com/index.php?topic=815009>

Question 254

The covariance between Stock X's and Stock Z's returns is closest to:

- A) 0.05
- B) 0.06
- C) 0.10
- D) 0.71

Answer: <https://biology-forums.com/index.php?topic=815497>

Question 255

Which of the following statements is FALSE?

- A) To estimate a firm's enterprise value, we compute the present value of the free cash flows (FCF) that the firm has available to pay equity holders.
- B) The NPV of any individual project represents its contribution to the firm's enterprise value.
- C) When using the total payout model, we discount total dividends and share repurchases, and use the growth rate in earnings when forecasting the growth of the firm's payout.
- D) In the total payout model, we first value the firm's equity, rather than just a single share.

Answer: <https://biology-forums.com/index.php?topic=815319>

Question 256

Suppose that you borrow \$60,000 in financing the project. According to MM proposition II, the firm's equity cost of capital will be closest to:

- A) 45%
- B) 30%
- C) 25%
- D) 35%

Answer: <https://biology-forums.com/index.php?topic=815909>

Question 257

Kampgrounds Inc. is considering purchasing a parcel of wilderness land near a popular historic site. Although this land will cost Kampgrounds \$400,000 today, by renting out wilderness campsites on this land, Kampgrounds expects to make \$35,000 at the end of every year indefinitely. If the appropriate discount rate is 8%, then the NPV of this new wilderness campsite is closest to:

- A) -\$50,000
- B) -\$37,500
- C) \$37,500
- D) \$50,000

Answer: <https://biology-forums.com/index.php?topic=814838>

Question 258

The effective dividend tax rate for an investor in Rearden Metal is closest to:

- A) 0%
- B) 20%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=816182>

Question 259

Kinston Industries just announced that it will cut its dividend from \$3.00 to \$2.00 per share and use the extra funds to expand its operations. Kinston's dividends were expected to grow at a 2% rate, and its share price was \$37.50. With the new expansion, Kinston dividends are expected to grow at a 5% rate. Kinston's share price following this announcement should be:

- A) \$20.00
- B) \$30.00
- C) \$37.50
- D) \$40.00

Answer: <https://biology-forums.com/index.php?topic=815312>

Question 260

The Sisyphian Company is considering a new project that will have an annual depreciation expense of \$2.5 million. If Sisyphian's marginal corporate tax rate is 40% and their average corporate tax rate is 30%, then what is the value of the depreciation tax shield on their new project?

- A) \$750,000
- B) \$1,000,000
- C) \$1,500,000
- D) \$1,750,000

Answer: <https://biology-forums.com/index.php?topic=815211>

Question 261

The total amount of principal that Dagny will pay during the first month of her mortgage is closest to:

- A) \$246
- B) \$446
- C) \$1800
- D) \$2245

Answer: <https://biology-forums.com/index.php?topic=814925>

Question 262

If the current inflation rate is 5%, then the nominal rate necessary for you to earn an 8% real interest rate on your investment is closest to:

- A) 13.0%
- B) 13.4%
- C) 4.9%
- D) 3.0%

Answer: <https://biology-forums.com/index.php?topic=814936>

Question 263

A firm can repurchase shares through a(n) _____ in which it offers to buy shares at a prespecified price during a short time period—generally within 20 days.

- A) tender offer
- B) open market share repurchases
- C) targeted repurchase
- D) Dutch auction share repurchase

Answer: <https://biology-forums.com/index.php?topic=816146>

Question 264

Which of the following statements is FALSE?

- A) Leverage can reduce the degree of managerial entrenchment because managers are more likely to be fired when a firm faces financial distress.
- B) When a firm is highly levered, creditors themselves will closely monitor the actions of managers, providing an additional layer of management oversight.
- C) According to the empire building hypothesis, leverage increases firm value because it commits the firm to making future interest payments, thereby reducing excess cash flows and wasteful investment by managers.

D) Managers of large firms tend to earn higher salaries, and they may also have more prestige and garner greater publicity than managers of small firms. As a result, managers may expand (or fail to shut down) unprofitable divisions, pay too much for acquisitions, make unnecessary capital expenditures, or hire unnecessary employees.

Answer: <https://biology-forums.com/index.php?topic=816114>

Question 265

If you hold 1000 shares of Merck, then the number of shares of Boeing that you hold is closest to:

- A) 240 shares
- B) 330 shares
- C) 510 shares
- D) 780 shares

Answer: <https://biology-forums.com/index.php?topic=815660>

Question 266

Which of the following statements is FALSE?

- A) Because all other risk is diversifiable, it is an investment's beta with respect to the efficient portfolio that measures its sensitivity to systematic risk, and therefore determines its cost of capital.
- B) If a security's expected return exceeds its required return given our current portfolio, then we can improve the performance of our portfolio by adding more of the security.
- C) The appropriate risk premium for an investment can be determined from its beta with the efficient portfolio.
- D) As we buy shares of a security i , its correlation with our portfolio P will increase, ultimately raising its required return until $E[R_i] = R_p$.

Answer: <https://biology-forums.com/index.php?topic=815546>

Question 267

The standard deviation of the return on Alpha Corporation is closest to:

- A) 22.4%
- B) 19.0%
- C) 21.8%
- D) 19.4%

Answer: <https://biology-forums.com/index.php?topic=815376>

Question 268

Which of the following statements is FALSE?

- A) A combination of portfolios on the efficient frontier of risky investments is also on the efficient frontier of risky investments.
- B) The conclusion of the CAPM that investors should hold the market portfolio combined with the risk-free investment depends on the quality of an investor's information.
- C) The SML holds with some rate r^* between r_s and r_b in place of r_f , where r^* depends on the proportion of savers and borrowers in the economy.
- D) In reality, investors have different information and spend varying amounts of effort on research for assorted stocks.

Answer: <https://biology-forums.com/index.php?topic=815563>

Question 269

The NPV for the trucking division is closest to:

- A) 170,750
- B) 200,000
- C) 212,550
- D) 250,000
- E) 312,500

Answer: <https://biology-forums.com/index.php?topic=815255>

Question 270

Which one of the following statements is FALSE?

- A) When we compute the return of a security based on the average payoff we expect to receive, we call it the expected return.
- B) The notion that investors prefer to have a safe income rather than a risky one of the same average amount is called risk aversion.
- C) Because investors are risk averse, the risk-free interest rate is not the right rate to use when converting risky cash flows across time.
- D) The more risk averse investors are, the higher the current price of a risky asset will be compared to a risk-free bond.

Answer: <https://biology-forums.com/index.php?topic=814784>

Question 271

The value of I_0 if they use the \$200 million to expand is closest to:

- A) \$825 million

- B) \$688 million
- C) \$840 million
- D) \$950 million

Answer: <https://biology-forums.com/index.php?topic=816214>

Question 272

If you buy shares of Coca-Cola on the secondary market:

- A) Coca-Cola receives the money because the company has issued new shares.
- B) you buy the shares from another investor who decided to sell the shares.
- C) you buy the shares from the New York Stock Exchange.
- D) you buy the shares from the Federal Reserve.

Answer: <https://biology-forums.com/index.php?topic=814604>

Question 273

JRN Enterprises just announced that it plans to cut its dividend from \$2.50 to \$1.50 per share and use the extra funds to expand its operations. Prior to this announcement, JRN's dividends were expected to grow at 4% per year and JRN's stock was trading at \$25.00 per share. With the new expansion, JRN's dividends are expected to grow at 8% per year indefinitely. Assuming that JRN's risk is unchanged by the expansion, the value of a share of JRN after the announcement is closest to:

- A) \$25.00
- B) \$15.00
- C) \$31.25
- D) \$27.50

Answer: <https://biology-forums.com/index.php?topic=815288>

Question 274

Perrigo's earnings per share (EPS) is closest to:

- A) \$0.19
- B) \$1.79
- C) \$2.81
- D) \$3.76

Answer: <https://biology-forums.com/index.php?topic=814639>

Question 275

The Free Cash Flow to Equity (FCFE) for the acquisition in year 0 is closest to:

- A) \$5 million
- B) \$100 million
- C) -\$100 million
- D) -\$50 million

Answer: <https://biology-forums.com/index.php?topic=816288>

Question 276

Assume that investors in Google pay a 15% tax rate on income from equity and a 35% tax rate on interest income. If Google were to issue sufficient debt to reduce its corporate taxes by \$1 billion per year permanently, then the value that would be created is closest to:

- A) \$6.4 billion
- B) \$8.6 billion
- C) \$9.8 billion
- D) \$14.3 billion

Answer: <https://biology-forums.com/index.php?topic=816003>

Question 277

Assume that projects Alpha and Beta are mutually exclusive. Which of the following statements is true regarding the investment decision tools' suitability for deciding between projects Alpha & Beta?

- A) The incremental IRR should not be used since the projects have different lives.
- B) The incremental IRR should not be used since the projects have different discount rates.
- C) The incremental IRR should not be used since the projects have different cash flow patterns.
- D) Both the NPV and incremental IRR approaches are appropriate to solve this problem.

Answer: <https://biology-forums.com/index.php?topic=815143>

Question 278

Your estimate of the asset beta for Rearden Metal is closest to:

- A) 0.42
- B) 0.59
- C) 0.66
- D) 0.71

Answer: <https://biology-forums.com/index.php?topic=815705>

Question 279

Which of the following statements is FALSE?

- A) Creditors often place restrictions on the actions that the firm can take. Such restrictions are referred to as debt covenants.
- B) Covenants are often designed to prevent management from exploiting debt holders, so they may help to reduce agency costs.
- C) Agency costs are smallest for long-term debt.
- D) Covenants may limit the firm's ability to pay large dividends or the types of investments that the firm can make.

Answer: <https://biology-forums.com/index.php?topic=816095>

Question 280

Which of the following agency problems represents a form of moral hazard?

- A) asset substitution
- B) debt overhang
- C) cashing out
- D) All of the above are examples of moral hazard.

Answer: <https://biology-forums.com/index.php?topic=816109>

Question 281

Which of the following statements is FALSE?

- A) The tangent portfolio is efficient and that, once we include the risk-free investment, all efficient portfolios are combinations of the risk-free investment and the tangent portfolio.
- B) The optimal portfolio of risky investments depends on how conservative or aggressive the investor is.
- C) By combining the efficient portfolio with the risk-free investment, an investor will earn the highest possible expected return for any level of volatility her or she is willing to bear.
- D) The efficient portfolio is the tangent portfolio, the portfolio with the highest Sharpe ratio in the economy.

Answer: <https://biology-forums.com/index.php?topic=815533>

Question 282

The firm mails dividend checks to the registered shareholders on the:

- A) ex-dividend date.
- B) declaration date.
- C) distribution date.
- D) record date.

Answer: <https://biology-forums.com/index.php?topic=816144>

Question 283

The discount rate that sets the present value of the promised bond payments equal to the current market price of the bond is called:

- A) the current yield.
- B) the yield to maturity.
- C) the zero coupon yield.
- D) the discount yield.

Answer: <https://biology-forums.com/index.php?topic=815005>

Question 284

How is the optimal portfolio choice affected if there are different rates for borrowers and savers?

Answer: <https://biology-forums.com/index.php?topic=815641>

Question 285

The NPV of project A is closest to:

- A) 12.0
- B) 12.6
- C) 15.0
- D) 42.9

Answer: <https://biology-forums.com/index.php?topic=815090>

Question 286

Nielson Motors plans to issue 10-year bonds that it believes will have an BBB rating. Suppose AAA bonds with the same maturity have a 3.5% yield. Assume that the market risk premium is 5% and the expected loss rate in the event of default on the bonds is 60%. The yield that these bonds will have to pay during average economic times is closest to:

- A) 3.50%
- B) 3.75%
- C) 4.00%
- D) 5.50%

Answer: <https://biology-forums.com/index.php?topic=815700>

Question 287

Based upon the three comparable firms, calculate that most appropriate unlevered cost of capital for Aardvark to use on this new product.

Answer: <https://biology-forums.com/index.php?topic=816305>

Question 288

The term _____ measures the sensitivity of the securities returns to:

- A) book-to-market.
- B) momentum.
- C) size.
- D) the overall market.

Answer: <https://biology-forums.com/index.php?topic=815821>

Question 289

If Moon Corporation has an increase in sales, which of the following would result in no change in its EBIT margin?

- A) A proportional increase in its net income
- B) A proportional decrease in its EBIT
- C) A proportional increase in its EBIT
- D) An increase in its operating expenses

Answer: <https://biology-forums.com/index.php?topic=814693>

Question 290

KAHR Incorporated will have EBIT this coming year of \$45 million. It will also spend \$18 million on total capital expenditures, increases its net working capital by \$7, and have \$9 million in depreciation expenses. KAHR is currently an all-equity firm with a corporate tax rate of 35% and a cost of capital of 10%. If the interest rate on new KAHR debt is 8%, how much should KAHR borrow today if they want to maximize their interest tax shield?

Answer: <https://biology-forums.com/index.php?topic=816026>

Question 291

The effective dividend tax rate for a pension fund in 2006 is closest to:

- A) 20%
- B) 0%
- C) 25%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=816193>

Question 292

Another oil refiner is offering to trade you 10,150 Bbls of Alaska North Slope (ANS) crude oil for 10,000 Bbls of West Texas Intermediate (WTI) crude oil. Assuming you currently have 10,000 Bbls of WTI crude, the added benefit (cost) to you if you take the trade is closest to:

- A) (\$1400)
- B) \$1400
- C) (\$3908)
- D) \$3908

Answer: <https://biology-forums.com/index.php?topic=814713>

Question 293

Assume that the EFT you invested in returns -10%, then the realized return on your investment is closest to:

- A) -20%
- B) -10%
- C) -24%

D) -26%

Answer: <https://biology-forums.com/index.php?topic=815539>

Question 294

The Sharpe ratio for the efficient portfolio is closest to:

- A) 0.7
- B) 1.0
- C) 1.4
- D) 1.2

Answer: <https://biology-forums.com/index.php?topic=815541>

Question 295

If in the event of distress, the present value of distress costs is equal to \$10 million, then the optimal level of debt for d'Anconia Copper is:

- A) \$25 million
- B) \$50 million
- C) \$60 million
- D) \$70 million

Answer: <https://biology-forums.com/index.php?topic=816069>

Question 296

Which of the following is NOT a section on the cash flow statement?

- A) Income generating activities
- B) Investing activities
- C) Operating activities
- D) Financing activities

Answer: <https://biology-forums.com/index.php?topic=814646>

Question 297

Which of the following statements regarding recapitalizations is FALSE?

- A) With a recapitalization, even though leverage reduces the total value of equity, shareholders capture the benefits of the interest tax shield up front.
- B) The share price always rises after the completion of the recapitalization.
- C) Leveraged recaps were especially popular in the mid- to late-1980s, when many firms found that these transactions could reduce their tax payments.
- D) When a firm makes a significant change to its capital structure, the transaction is called a recapitalization.

Answer: <https://biology-forums.com/index.php?topic=815987>

Question 298

Which of the following is (are) deducted from EBIT to determine pretax income?

- A) Earnings per share
- B) Interest expense
- C) Corporate taxes
- D) Both B and C

Answer: <https://biology-forums.com/index.php?topic=814644>

Question 299

Show mathematically that the stock price of RC won't change following the debt issuance and share repurchase.

Answer: <https://biology-forums.com/index.php?topic=815926>

Question 300

Assuming that Novartis AG (NVS) has an EPS of \$3.35, based upon the average price-to-book ratio for its competitors, Novartis' stock price is closest to:

- A) \$13.00
- B) \$22.95
- C) \$39.70
- D) \$44.35

Answer: <https://biology-forums.com/index.php?topic=815346>

Question 301

If Alex Corporation takes out a bank loan to purchase a machine used in production and everything else stays the same, its equity multiplier will

_____, and its ROE will _____.

- A) increase; increase
- B) decrease; decrease
- C) increase; decrease
- D) decrease; increase

Answer: <https://biology-forums.com/index.php?topic=814690>

Question 302

What is the NPV of an investment that costs \$2500 and pays \$1000 certain at the end of one, three, and five years?

Answer: <https://biology-forums.com/index.php?topic=814943>

Question 303

Which of the following statements is FALSE?

- A) The creditors must vote to accept the Chapter 11 reorganization plan, and the bankruptcy court must approve it. If an acceptable plan is not put forth, the court may ultimately force a Chapter 7 liquidation of the firm.
- B) In Chapter 13 liquidation, a trustee is appointed to oversee the liquidation of the firm's assets through an auction. The proceeds from the liquidation are used to pay the firm's creditors, and the firm ceases to exist.
- C) When a corporation becomes financially distressed, outside professionals, such as legal and accounting experts, consultants, appraisers, auctioneers, and others with experience selling distressed assets, are generally hired.
- D) In the case of Chapter 11 reorganization, creditors must often wait several years for a reorganization plan to be approved and to receive payment.

Answer: <https://biology-forums.com/index.php?topic=816049>

Question 304

If the risk-free rate of interest (r_f) is 6%, then you should be indifferent between receiving \$250 today or

- A) \$235.85 in one year.
- B) \$250.00 in one year.
- C) \$265.00 in one year.
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814727>

Question 305

The term moral hazard refers to:

- A) the chance the firm will default and impose losses on its debtholders.
- B) the under-investment problem.
- C) the over-investment problem.
- D) the idea that individuals will change their behavior if they are not fully exposed to its consequences.

Answer: <https://biology-forums.com/index.php?topic=816108>

Question 306

Zoe Dental Implements has gross property, plant and equipment totaling \$1.4 million, depreciation expense this year of \$200,000, and accumulated depreciation last year of \$550,000. What is Zoe's net property, plant and equipment?

- A) \$1.4 million
- B) \$1.2 million
- C) \$550,000
- D) \$650,000

Answer: <https://biology-forums.com/index.php?topic=814624>

Question 307

Which of the following statements is FALSE?

- A) The expected return of a portfolio is equal to the weighted average expected return, but the volatility of a portfolio is less than the weighted average volatility.
- B) Each security contributes to the volatility of the portfolio according to its volatility, scaled by its covariance with the portfolio, which adjusts for the fraction of the total risk that is common to the portfolio.
- C) Nearly half of the volatility of individual stocks can be eliminated in a large portfolio as a result of diversification.
- D) The overall variability of the portfolio depends on the total co-movement of the stocks within it.

Answer: <https://biology-forums.com/index.php?topic=815509>

Question 308

Which of the following statements is FALSE?

- A) The size effect is the observation that small stocks have positive alphas.

- B) When considering portfolios formed based on the book-to-market ratio, most of the portfolios plot below the security market line.
C) The largest alphas occur in the smallest size deciles.
D) When considering portfolios formed based on size, although the portfolios with the higher betas yield higher returns, most size portfolios plot above the security market line.

Answer: <https://biology-forums.com/index.php?topic=815783>

Question 309

If the current inflation rate is 4.2% and you are earning a real rate of return on an investment of 3.8%, then the nominal rate on this investment is closest to:

- A) 3.8%
B) 4.2%
C) 8.0%
D) 8.2%

Answer: <https://biology-forums.com/index.php?topic=814934>

Question 310

What is the no-arbitrage price for security C?

- A) \$800
B) \$1600
C) \$3200
D) \$4000

Answer: <https://biology-forums.com/index.php?topic=814787>

Question 311

Wyatt oil is considering drilling a new self sustaining oil well at a cost of \$1,000,000. This well will produce \$100,000 worth of oil during the first year, but as oil is removed from the well the amount of oil produced will decline by 2%, per year forever. If the Wyatt oil's appropriate interest rate is 8%, then the NPV of this oil well is closest to:

- A) -\$250,000
B) \$0
C) \$250,000
D) \$1,000,000

Answer: <https://biology-forums.com/index.php?topic=814839>

Question 312

Which of the following types of risk doesn't belong?

- A) Market risk
B) Unique risk
C) Idiosyncratic risk
D) Unsystematic risk

Answer: <https://biology-forums.com/index.php?topic=815427>

Question 313

The beta on Peter's Portfolio is closest to:

- A) 0.7
B) 0.8
C) 1.8
D) 1.0

Answer: <https://biology-forums.com/index.php?topic=815632>

Question 314

The depreciation tax shield for the Shepard Industries project in year two is closest to:

- A) \$84
B) \$196
C) \$72
D) \$96

Answer: <https://biology-forums.com/index.php?topic=815224>

Question 315

The NPV for Epiphany's Project is closest to:

- A) \$4825

- B) \$39,000
- C) \$11,946
- D) \$20,400

Answer: <https://biology-forums.com/index.php?topic=815229>

Question 316

The covariance between Stock X's and Stock Y's returns is closest to:

- A) 0.10
- B) 0.29
- C) 0.12
- D) 0.69

Answer: <https://biology-forums.com/index.php?topic=815492>

Question 317

The expected return on the portfolio of the three stocks is closest to:

- A) 10.0%
- B) 11.4%
- C) 11.8%
- D) 12.0%

Answer: <https://biology-forums.com/index.php?topic=815571>

Question 318

Assume that you purchased General Electric Company stock at the closing price on December 31, 2008 and sold it after the dividend had been paid at the closing price on January 26, 2009. Your dividend yield for this period is closest to:

- A) -8.15%
- B) 0.75%
- C) 0.70%
- D) -8.80%

Answer: <https://biology-forums.com/index.php?topic=815385>

Question 319

Which of the following costs would you consider when making a capital budgeting decision?

- A) Sunk cost
- B) Opportunity cost
- C) Interest expense
- D) Fixed overhead cost

Answer: <https://biology-forums.com/index.php?topic=815182>

Question 320

The payback period for project Beta is closest to:

- A) 2.9 years
- B) 3.1 years
- C) 2.6 years
- D) 3.2 years

Answer: <https://biology-forums.com/index.php?topic=815131>

Question 321

Your estimate of the asset beta for Nielson Motors is closest to:

- A) 0.59
- B) 0.66
- C) 0.71
- D) 1.75

Answer: <https://biology-forums.com/index.php?topic=815707>

Question 322

You are in the process of purchasing a new automobile that will cost you \$25,000. The dealership is offering you either a \$1000 rebate (applied toward the purchase price) or 3.9% financing for 60 months (with payments made at the end of the month). You have been pre-approved for an auto loan through your local credit union at an interest rate of 7.5% for 60 months. Should you take the \$2000 rebate and finance through your credit union or forgo the rebate and finance through the dealership at the lower 3.9% APR?

Answer: <https://biology-forums.com/index.php?topic=814919>

Question 323

Because debtor-in-possession (DIP) financing is senior to all existing creditors:

- A) it allows a firm that has filed for bankruptcy renewed access to financing to keep operating.
- B) it is an important cost for firms that rely heavily on trade credit.
- C) it is likely to be small for producers of raw materials, as the value of those goods, once delivered, does not depend on the seller's continued success.
- D) it allows debtors to assume they may have an opportunity to avoid their obligations to a firm.

Answer: <https://biology-forums.com/index.php?topic=816057>

Question 324

Assume that THSI's cost of capital for this project is 15%. The NPV of this temporary housing project is closest to:

- A) \$435,000
- B) -\$650,000
- C) \$1,960,000
- D) -\$435,000

Answer: <https://biology-forums.com/index.php?topic=815217>

Question 325

The amount of money that would be in the account if you left the money there until your 65th birthday is closest to:

- A) \$29,556
- B) \$148,780
- C) \$168,824
- D) \$748,932

Answer: <https://biology-forums.com/index.php?topic=814818>

Question 326

The statement of financial performance is also known as the:

- A) balance sheet.
- B) income statement.
- C) statement of cash flows.
- D) statement of stockholder's equity.

Answer: <https://biology-forums.com/index.php?topic=814641>

Question 327

Rearden's expected capital gains yield is closest to:

- A) 4.0%
- B) 6.4%
- C) 8.2%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815279>

Question 328

Which of the following statements is FALSE?

- A) We should use the general dividend discount model to value the stock of a firm with rapid or changing growth.
- B) As firms mature, their growth slows to rates more typical of established companies.
- C) The dividend discount model values the stock based on a forecast of the future dividends paid to shareholders.
- D) The simplest forecast for the firm's future dividends states that they will grow at a constant rate, g , forever.

Answer: <https://biology-forums.com/index.php?topic=815273>

Question 329

Advanced Micro Devices (NYSE: AMD) is currently trading at \$20.75 on the NYSE. Advanced Micro Devices is also listed on NASDAQ and assume it is currently trading on NASDAQ at \$20.50. Does an arbitrage opportunity exist and if so how would you exploit it and how much would you make on a block trade of 1000 shares?

Answer: <https://biology-forums.com/index.php?topic=814762>

Question 330

Which of the following statements is FALSE?

- A) The standard error provides an indication of how far the sample average might deviate from the expected return.

- B) The 95% confidence interval for the expected return is defined as the Historical Average Return plus or minus three standard errors.
C) We can use a security's historical average return to estimate its actual expected return.
D) The standard error is the standard deviation of the average return.

Answer: <https://biology-forums.com/index.php?topic=815382>

Question 331

Which of the following is NOT a valid time value of money function in Excel?

- A) PMT
B) NPER
C) I
D) FV

Answer: <https://biology-forums.com/index.php?topic=814870>

Question 332

The beta of the precious metals fund with the Luther Fund is closest to:

- A) -0.3
B) -0.6
C) 0.3
D) 0.6

Answer: <https://biology-forums.com/index.php?topic=815548>

Question 333

Suppose that the risk-free rate is 5% and the market portfolio has an expected return of 13% with a volatility of 18%. Luther Industries has a volatility of 24% and a correlation with the market of .5. If you assume that the CAPM assumptions hold, then what is the expected return on Luther stock?

Answer: <https://biology-forums.com/index.php?topic=815637>

Question 334

Assume that projects Alpha and Beta are mutually exclusive. The correct investment decision and the best rationale for that decision is to:

- A) invest in project Beta since $NPV_{\text{Beta}} > 0$.
B) invest in project Alpha since $NPV_{\text{Beta}} < NPV_{\text{Alpha}}$.
C) invest in project Beta since $IRR_{\text{B}} > IRR_{\text{A}}$.
D) invest in project Beta since $NPV_{\text{Beta}} > NPV_{\text{Alpha}} > 0$.

Answer: <https://biology-forums.com/index.php?topic=815142>

Question 335

Which of the following statements is FALSE?

- A) The IRR investment rule states you should turn down any investment opportunity where the IRR is less than the opportunity cost of capital.
B) The IRR investment rule states that you should take any investment opportunity where the IRR exceeds the opportunity cost of capital.
C) Since the IRR rule is based upon the rate at which the NPV equals zero, like the NPV decision rule, the IRR decision rule will always identify the correct investment decisions.
D) There are situations in which multiple IRRs exist.

Answer: <https://biology-forums.com/index.php?topic=815105>

Question 336

Which of the following statements is FALSE?

- A) The long-run growth rate g_{FCF} is typically based on the expected long-run growth rate of the firm's revenues.
B) Because the firm's free cash flow is equal to the sum of the free cash flows from the firm's current and future investments, we can interpret the firm's enterprise value as the total NPV that the firm will earn from continuing its existing projects and initiating new ones.
C) If the firm has no debt then $r_{\text{wacc}} =$ the risk-free rate of return.
D) When using the discounted free cash flow model, we forecast the firm's free cash flow up to some horizon, together with some terminal (continuation) value of the enterprise.

Answer: <https://biology-forums.com/index.php?topic=815322>

Question 337

Wyatt Oil's current stock price is closest to:

- A) \$11.00
B) \$12.50
C) \$14.00
D) \$17.50

Answer: <https://biology-forums.com/index.php?topic=816151>

Question 338

What strategies are available to shareholders to help ensure that managers are motivated to act in the interest of the shareholders rather than their own interest?

Answer: <https://biology-forums.com/index.php?topic=814595>

Question 339

Assuming that the risk-free rate is 4% and the expected return on the market is 12%, then calculate the required return on Mary's portfolio.

Answer: <https://biology-forums.com/index.php?topic=815636>

Question 340

The enterprise value of CCM corporation is closest to:

- A) \$396 million
- B) \$290 million
- C) \$382 million
- D) \$350 million

Answer: <https://biology-forums.com/index.php?topic=815329>

Question 341

The effective dividend tax rate in 1999 is closest to:

- A) 0%
- B) 20%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=816179>

Question 342

If on December 31, 2008 Luther has 8 million shares outstanding trading at \$15 per share, then what is Luther's market-to-book ratio?

Answer: <https://biology-forums.com/index.php?topic=814632>

Question 343

Which of the following statements is FALSE?

- A) Because all investors should hold the risky securities in the same proportions as the efficient portfolio, their combined portfolio will also reflect the same proportions as the efficient portfolio.
- B) When the CAPM assumptions hold, choosing an optimal portfolio is relatively straightforward: it is the combination of the risk-free investment and the market portfolio.
- C) Graphically, when the tangent line goes through the market portfolio, it is called the security market line (SML).
- D) A portfolio's risk premium and volatility are determined by the fraction that is invested in the market.

Answer: <https://biology-forums.com/index.php?topic=815560>

Question 344

The income that would be available to equity holders in 2005 if Kroger was not levered is closest to:

- A) \$290 million
- B) \$745 million
- C) \$847 million
- D) \$550 million

Answer: <https://biology-forums.com/index.php?topic=815940>

Question 345

What are some common multiples used to value stocks?

Answer: <https://biology-forums.com/index.php?topic=815353>

Question 346

The unlevered cost of capital for Anteater Enterprises is closest to:

- A) 10.1%
- B) 9.5%
- C) 9.9%
- D) 10.3%

Answer: <https://biology-forums.com/index.php?topic=816392>

Question 347

Which of the following statements is FALSE?

- A) If the bond trades at a discount, and investor who buys the bond will earn a return both from receiving the coupons and from receiving a face value that exceeds the price paid for the bond.
- B) Most coupon bond issuers choose a coupon rate so that the bonds will initially trade at, or very near to, par.
- C) Coupon bonds always trade for a discount.
- D) At any point in time, changes in market interest rates affect a bond's yield to maturity and its price.

Answer: <https://biology-forums.com/index.php?topic=814994>

Question 348

Which of the following industries likely to have the highest costs of financial distress?

- A) Grocery store
- B) Semiconductors
- C) Real estate
- D) Utilities

Answer: <https://biology-forums.com/index.php?topic=816078>

Question 349

If Nielson's equity cost of capital is 13%, then Nielson's expected share price is closest to:

- A) \$19.23
- B) \$37.86
- C) \$35.71
- D) \$50.00

Answer: <https://biology-forums.com/index.php?topic=815359>

Question 350

The expected return on security with a beta of 0 is closest to:

- A) -4.0%
- B) 0.0%
- C) 3.2%
- D) 4.0%

Answer: <https://biology-forums.com/index.php?topic=815446>

Question 351

The Volatility on Stock Z's returns is closest to:

- A) 3%
- B) 13%
- C) 16%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=815500>

Question 352

In 2005, the effective tax rate for debt holders was closest to:

- A) 58%
- B) 35%
- C) 40%
- D) 65%

Answer: <https://biology-forums.com/index.php?topic=816014>

Question 353

Von Bora Corporation (VBC) is expected to pay a \$2.00 dividend at the end of this year. If you expect VBC's dividend to grow by 5% per year forever and VBC's equity cost of capital is 13%, then the value of a share of VBS stock is closest to:

- A) \$25.00
- B) \$40.00
- C) \$15.40
- D) \$11.10

Answer: <https://biology-forums.com/index.php?topic=815283>

Question 354

Assuming the appropriate YTM on the Sisyphian bond is 7.5%, then this bond will trade at

- A) par.
- B) a discount.
- C) a premium.
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814981>

Question 355

If KT expects to maintain a debt to equity ratio for this project of 1, then KT's equity cost of capital, r_E , for this project is closest to:

- A) 17.0%
- B) 5.0%
- C) 15.0%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=816301>

Question 356

You are offered an investment opportunity in which you will receive \$25,000 in one year in exchange for paying \$23,750 today. Suppose the risk-free interest rate is 6% per year. Should you take this project? The NPV for this project is closest to:

- A) Yes; NPV = \$165
- B) No; NPV = \$165
- C) Yes; NPV = -\$165
- D) No; NPV = -\$165

Answer: <https://biology-forums.com/index.php?topic=814746>

Question 357

Assume that MM's perfect capital market conditions are met and that you can borrow and lend at the same 5% rate as With. You have \$5000 of your own money to invest and you plan on buying With stock. Using homemade (un)leverage you invest enough at the risk-free rate so that the payoff of your account will be the same as a \$5000 investment in Without stock? The number of shares of With stock you purchased is closest to:

- A) 100
- B) 425
- C) 1650
- D) 825

Answer: <https://biology-forums.com/index.php?topic=815870>

Question 358

Assuming that this bond trades for \$1035.44, then the YTM for this bond is equal to:

Answer: <https://biology-forums.com/index.php?topic=814991>

Question 359

The beta for Taggart Transcontinental is closest to:

- A) 0.75
- B) 0.80
- C) 1.00
- D) 1.10

Answer: <https://biology-forums.com/index.php?topic=815565>

Question 360

Your firm is considering building a new office complex. Your firm already owns land suitable for the new complex. The current book value of the land is \$100,000, however a commercial real estate agent has informed you that an outside buyer is interested in purchasing this land and would be willing to pay \$650,000 for it. When calculating the NPV of your new office complex, ignoring taxes, the appropriate incremental cash flow for the use of this land is:

- A) \$650,000
- B) \$0
- C) \$100,000
- D) \$750,000

Answer: <https://biology-forums.com/index.php?topic=815208>

Question 361

The expected return on security with a beta of 0.8 is closest to:

- A) 0.0%
- B) 3.2%
- C) 6.4%
- D) 7.2%

Answer: <https://biology-forums.com/index.php?topic=815444>

Question 362

The effective annual rate (EAR) for a loan with a stated APR of 10% compounded quarterly is closest to:

- A) 9.65%
- B) 10.00%
- C) 10.38%
- D) 12.50%

Answer: <https://biology-forums.com/index.php?topic=814895>

Question 363

Suppose you have \$500 today and the risk-free interest rate (rf) is 5%. The equivalent value in one year is closest to:

- A) \$475
- B) \$476
- C) \$500
- D) \$525

Answer: <https://biology-forums.com/index.php?topic=814729>

Question 364

Which of the following formulas is incorrect?

- A) Yield to maturity for an n-period zero-coupon bond =
- B) Price of an n-period bond = $\frac{C}{r} + \frac{F}{(1+r)^n}$
- C) Price of an n-period bond = $C \times \frac{1 - (1+r)^{-n}}{r} + \frac{F}{(1+r)^n}$
- D) Coupon =

Answer: <https://biology-forums.com/index.php?topic=814967>

Question 365

Dolan Corporation has Gross Profit of \$2.3 million, cost of sales of \$1.7 million, operating expenses of \$0.8 million, and "other" income of \$0.5 million.

What is its EBIT?

- A) \$2 million
- B) \$0.3 million
- C) \$1 million
- D) \$0.6 million

Answer: <https://biology-forums.com/index.php?topic=814638>

Question 366

Which of the following statements is FALSE?

- A) One advantage of quoting the yield to maturity rather than the price is that the yield is independent of the face value of the bond.
- B) Unlike the case of bonds that pay coupons, for zero-coupon bonds, there is no simple formula to solve for the yield to maturity directly.
- C) Because we can convert any bond price into a yield, and vice versa, bond prices and yields are often used interchangeably.
- D) The IRR of an investment in a bond is given a special name, the yield to maturity (YTM).

Answer: <https://biology-forums.com/index.php?topic=814968>

Question 367

The ranking of the four alternatives from most valuable to least valuable if the interest rate is 7% per year would be:

- A) 1, 2, 3, 4
- B) 4, 3, 2, 1
- C) 3, 4, 2, 1
- D) 3, 1, 2, 4

Answer: <https://biology-forums.com/index.php?topic=814815>

Question 368

Which of the following balance sheet equations is INCORRECT?

- A) Assets - Liabilities = Shareholders' Equity
- B) Assets = Liabilities + Shareholders' Equity
- C) Assets - Current Liabilities = Long Term Liabilities
- D) Assets - Current Liabilities = Long Term Liabilities + Shareholders' Equity

Answer: <https://biology-forums.com/index.php?topic=814612>

Question 369

If Luther's accounts receivable were \$55.5 million in 2009, then calculate Luther's accounts receivable days for 2009.

Answer: <https://biology-forums.com/index.php?topic=814677>

Question 370

Luther Industries has a dividend yield of 4.5% and a cost of equity capital of 12%. Luther Industries dividends are expected to grow at a constant rate indefinitely. The grow rate of Luther's dividends are closest to:

- A) 7.5%
- B) 5.5%
- C) 16.5%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=815284>

Question 371

The present value (at age 30) of your retirement savings is closest to:

- A) \$87,000
- B) \$108,000
- C) \$46,600
- D) \$75,230

Answer: <https://biology-forums.com/index.php?topic=814856>

Question 372

Suppose that the managers at Rearden Metal will engage in empire building unless that behavior increases the likelihood of bankruptcy. If Rearden has \$180 million in debt due in one year, then the expected value of Rearden's assets is closest to:

- A) \$265 million
- B) \$280 million
- C) \$295 million
- D) \$300 million

Answer: <https://biology-forums.com/index.php?topic=816121>

Question 373

The standard deviation for the return on an individual firm is closest to:

- A) 23.0%
- B) 5.25%
- C) 15.0%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815435>

Question 374

If your income tax rate is 30%, then the after-tax return you receive on your money market fund is closest to:

- A) 3.7%
- B) 5.1%
- C) 3.6%
- D) 4.2%

Answer: <https://biology-forums.com/index.php?topic=814954>

Question 375

The amount of money that Galt's fund will have under management is closest to:

- A) \$500 million
- B) \$600 million
- C) \$1000 million
- D) \$1250 million

Answer: <https://biology-forums.com/index.php?topic=815776>

Question 376

Your estimate of the asset beta for Taggart Transcontinental is closest to:

- A) 0.42
- B) 0.59
- C) 0.66
- D) 0.71

Answer: <https://biology-forums.com/index.php?topic=815704>

Question 377

At the conclusion of this transaction, the number of shares that d'Anconia Copper will repurchase is closest to:

- A) 5 million
- B) 15 million
- C) 20 million
- D) 40 million

Answer: <https://biology-forums.com/index.php?topic=815855>

Question 378

Which of the following statements is FALSE?

- A) The volatility declines as the number of stocks in a portfolio grows.
- B) An equally weighted portfolio is a portfolio in which the same amount is invested in each stock.
- C) As the number of stocks in a portfolio grows large, the variance of the portfolio is determined primarily by the average covariance among the stocks.
- D) When combining stocks into a portfolio that puts positive weight on each stock, unless all of the stocks are uncorrelated with the portfolio, the risk of the portfolio will be lower than the weighted average volatility of the individual stocks.

Answer: <https://biology-forums.com/index.php?topic=815508>

Question 379

The Free Cash Flow-to-Equity (FCFE) for the acquisition in year 1 is closest to:

- A) \$4.7 million
- B) \$6.5 million
- C) \$8.3 million
- D) \$6.8 million

Answer: <https://biology-forums.com/index.php?topic=816289>

Question 380

If in 2009 Luther has 10.2 million shares outstanding and these shares are trading at \$16 per share, then Luther's Market-to-book ratio would be closest to:

- A) 0.39
- B) 0.76
- C) 1.29
- D) 2.57

Answer: <https://biology-forums.com/index.php?topic=814630>

Question 381

Which of the following statements is FALSE?

- A) The higher the firm's leverage, the more the firm exploits the tax advantage of debt, and the lower its WACC.
- B) Corporate taxes lower the effective cost of debt financing, which translates into a reduction in the weighted average cost of capital.
- C) Because the firm's free cash flow is computed without considering the firm's leverage, we account for the benefit of the interest tax shield by calculating the WACC using the before tax cost of debt.
- D) The reduction in the WACC increases with the amount of debt financing.

Answer: <https://biology-forums.com/index.php?topic=815962>

Question 382

If the appropriate interest rate is 10%, then Nielson Motors should:

- A) invest in this opportunity since the NPV is positive.
- B) not invest in this opportunity since the NPV is positive.
- C) invest in this opportunity since the NPV is negative.
- D) not invest in this opportunity since the NPV is negative.

Answer: <https://biology-forums.com/index.php?topic=814836>

Question 383

Which of the following statements is FALSE?

- A) The S&P 500 and the Wilshire 5000 indexes are both well-diversified indexes that roughly correspond to the market of U.S. stocks.
- B) Practitioners commonly use the S&P 500 as the market portfolio in the CAPM because they believe that this index is actually the market portfolio.
- C) Standard & Poor's Depository Receipts (SPDR, nicknamed "spider") trade on the American Stock Exchange and represent ownership in the S&P 500.
- D) The S&P 500 was the first widely publicized value weighted index and it has become a benchmark for professional investors.

Answer: <https://biology-forums.com/index.php?topic=815669>

Question 384

Which of the following statements is FALSE?

- A) When we relax the assumption of a constant debt-equity ratio, the FTE method is relatively straightforward to use and is therefore the preferred method with alternative leverage policies.
- B) When debt levels are set according to a fixed schedule, we can discount the predetermined interest tax shields using the debt cost of capital, r_D .
- C) With a constant interest coverage policy, the value of the interest tax shield is proportional to the project's unlevered value.
- D) When the firm keeps its interest payments to a target fraction of its FCF, we say it has a constant interest coverage ratio.

Answer: <https://biology-forums.com/index.php?topic=816310>

Question 385

If the risk-free interest rate is 10%, then of the four projects listed, which project would you never want to invest in?

- A) Eenie
- B) Meenie
- C) Mighty
- D) Moe

Answer: <https://biology-forums.com/index.php?topic=814752>

Question 386

The expected alpha for Wyatt Oil is closest to:

- A) -3.00%
- B) -1.00%
- C) 0.00%
- D) 3.00%

Answer: <https://biology-forums.com/index.php?topic=815750>

Question 387

Suppose that BBB pays corporate taxes of 40% and that shareholders expects the change in debt to be permanent. Assume that capital markets are perfect except for the existence of corporate taxes and financial distress costs. If the price of BBB's stock rises to \$10.80 per share following the announcement, then the present value of BBB's financial distress costs is closest to:

Answer: <https://biology-forums.com/index.php?topic=816084>

Question 388

The free cash flow for the first year of Epiphany's project is closest to:

- A) \$43,000
- B) \$25,000
- C) \$38,000
- D) \$45,000

Answer: <https://biology-forums.com/index.php?topic=815227>

Question 389

The expected return on security "Y" is closest to:

- A) 0%
- B) 4%
- C) 10%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=815443>

Question 390

Which of the following statements is FALSE?

- A) Future dividend payments and stock prices are not known with certainty; rather these values are based on the investor's expectations at the time the stock is purchased.
- B) The capital gain is the difference between the expected sale price and the purchase price of the stock.
- C) The sum of the dividend yield and the capital gain rate is called the total return of the stock.
- D) We divide the capital gain by the expected future stock price to calculate the capital gain rate.

Answer: <https://biology-forums.com/index.php?topic=815297>

Question 391

The effective dividend tax rate for a one-year individual investor in 2006 is closest to:

- A) 20%
- B) 15%
- C) 35%
- D) 0%

Answer: <https://biology-forums.com/index.php?topic=816192>

Question 392

If Flagstaff currently maintains a debt to equity ratio of 1, then the value of Flagstaff's interest tax shield is closest to:

- A) \$10 million
- B) \$18 million
- C) \$11 million
- D) \$24 million

Answer: <https://biology-forums.com/index.php?topic=815977>

Question 393

The income that would be available to equity holders in 2006 if Kroger was not levered is closest to:

- A) \$1525 million
- B) \$2035 million
- C) \$1500 million
- D) \$1325 million

Answer: <https://biology-forums.com/index.php?topic=815939>

Question 394

Wyatt Oil's average historical return is closest to:

- A) -2.50%
- B) -3.33%
- C) -4.33%
- D) -5.17%

Answer: <https://biology-forums.com/index.php?topic=815678>

Question 395

Which of the following is NOT an assumption used in deriving the Capital Asset Pricing Model (CAPM)?

- A) Investors have homogeneous expectations regarding the volatilities, correlation, and expected returns of securities.
- B) Investors have homogeneous risk adverse preferences toward taking on risk.
- C) Investors hold only efficient portfolios of traded securities, that is portfolios that yield the maximum expected return for the given level of volatility.
- D) Investors can buy and sell all securities at competitive market prices without incurring taxes or transactions cost and can borrow and lend at the risk-free interest rate.

Answer: <https://biology-forums.com/index.php?topic=815561>

Question 396

You overhear your manager saying that she plans to book an Ocean-view room on her upcoming trip to Miami for a meeting. You know that the interior rooms are much less expensive and that your manager is traveling at the Company's expense. This use of additional funds comes about as a result of:

- A) an agency problem.
- B) an adverse selection problem.
- C) a moral hazard.
- D) a publicity problem.

Answer: <https://biology-forums.com/index.php?topic=814592>

Question 397

Suppose that BBB pays corporate taxes of 35% and that shareholders expects the change in debt to be permanent. Assume that capital markets are

perfect except for the existence of corporate taxes and financial distress costs. If the price of BBB's stock rises to \$10.85 per share following the announcement, then the present value of BBB's financial distress costs is closest to:

- A) \$21.25 million
- B) \$35.00 million
- C) \$11.40 million
- D) \$13.75 million

Answer: <https://biology-forums.com/index.php?topic=816081>

Question 398

Suppose you are a shareholder in d'Anconia Copper holding 300 shares, and you disagree with the decision to lever the firm. You can undo the effect of this decision by

- A) borrowing \$2000 and buying 100 shares of stock.
- B) selling 100 shares of stock and lending \$2000.
- C) borrowing \$1200 and buying 60 shares of stock.
- D) selling 60 shares of stock and lending \$1200.

Answer: <https://biology-forums.com/index.php?topic=815858>

Question 399

The NPV for this project is closest to:

- A) \$6250
- B) \$14,100
- C) \$10,000
- D) \$18,600

Answer: <https://biology-forums.com/index.php?topic=815836>

Question 400

Suppose that to raise the funds for the initial investment the firm borrows \$45,000 at the risk free rate and issues new equity to cover the remainder. In this situation, calculate the value of the firm's levered equity from the project. What is the cost of capital for the firm's levered equity?

Answer: <https://biology-forums.com/index.php?topic=815846>

Question 401

The CAPM does not require investors have homogeneous expectations, but rather that they have:

- A) rational biases.
- B) no biases.
- C) heterogenous expectations.
- D) rational expectations.

Answer: <https://biology-forums.com/index.php?topic=815755>

Question 402

Which of the following statements is FALSE?

- A) With a stock dividend, a firm does not pay out any cash to shareholders. As a result, the total market value of the firm's assets and liabilities, and therefore of its equity, is unchanged.
- B) If the price of the stock falls too low, a company can engage in a reverse split and reduce the number of shares outstanding.
- C) Stock dividends of 50% or higher are generally referred to as stock splits.
- D) Rather than pay a dividend using cash or shares of its own stock, a firm can also distribute shares of a subsidiary in a transaction referred to as a off-shoot.

Answer: <https://biology-forums.com/index.php?topic=816233>

Question 403

The payback period for this project is closest to:

- A) 2.1 years
- B) 3.0 years
- C) 2.0 years
- D) 2.2 years

Answer: <https://biology-forums.com/index.php?topic=815132>

Question 404

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs. Suppose that at the start of the year, MI has no debt outstanding, but has 5.6 million shares of stock outstanding. If MI issues debt of \$125 million due next year and uses the proceeds to repurchase shares, the share price following the announcement of the repurchase will be closest to:

- A) \$23.90
- B) \$23.75
- C) \$25.00
- D) \$5.15

Answer: <https://biology-forums.com/index.php?topic=816067>

Question 405

Which of the following statements regarding the balance sheet is INCORRECT?

- A) The balance sheet provides a snapshots of the firm's financial position at a given point in time.
- B) The balance sheet lists the firm's assets and liabilities.
- C) The balance sheet reports stockholders' equity on the right hand side.
- D) The balance sheet reports liabilities on the left hand side.

Answer: <https://biology-forums.com/index.php?topic=814616>

Question 406

Which of the following is NOT an advantage of a sole proprietorship?

- A) Single taxation
- B) Ease of setup
- C) Limited liability
- D) No separation of ownership and control

Answer: <https://biology-forums.com/index.php?topic=814573>

Question 407

The incremental cash flow that the Krusty Krab will incur in year 1 if they elect to upgrade to the new grill is closest to:

- A) 6500
- B) 7800
- C) 10,800
- D) 11,500

Answer: <https://biology-forums.com/index.php?topic=815244>

Question 408

The effective dividend tax rate for a buy and hold individual investor in 2006 is closest to:

- A) 0%
- B) 35%
- C) 15%
- D) 20%

Answer: <https://biology-forums.com/index.php?topic=816191>

Question 409

Based upon Ideko's Sales and Operating Cost Assumptions, what production capacity will Ideko require in 2008?

- A) 1702 units
- B) 1323 units
- C) 1505 units
- D) 1914 units

Answer: <https://biology-forums.com/index.php?topic=816349>

Question 410

Galt's enterprise value is closest to:

- A) \$90 million
- B) \$510 million
- C) \$600 million
- D) \$690 million

Answer: <https://biology-forums.com/index.php?topic=815884>

Question 411

The Rufus Corporation has 125 million shares outstanding and analysts expect Rufus to have earnings of \$500 million this year. Rufus plans to pay out 40% of its earnings in dividends and they expect to use another 20% of their earnings to repurchase shares. If Rufus' equity cost of capital is 15% and Rufus' earnings are expected to grow at a rate of 3% per year, then the value of a share of Rufus stock is closest to:

- A) \$13.35
- B) \$33.50

C) \$20.00

D) \$16.00

Answer: <https://biology-forums.com/index.php?topic=815328>

Question 412

Assuming that your capital is constrained, what is the fifth project that you should invest in?

A) Project H

B) Project I

C) Project B

D) Project A

Answer: <https://biology-forums.com/index.php?topic=815158>

Question 413

Assuming you currently have 10,000 Bbls of WTI crude, the added benefits to you if you were to sell the 10,000 Bbls of WTI crude and use the proceeds to purchase and refine ANS crude is closest to:

A) \$730,600

B) \$770,000

C) \$40,800

D) \$43,308

Answer: <https://biology-forums.com/index.php?topic=814717>

Question 414

Assume that college costs continue to increase an average of 4% per year and that all her college savings are invested in an account paying 7% interest. Draw a timeline that details the amount of money she will need to have in the future four each of her four years of her undergraduate education.

Answer: <https://biology-forums.com/index.php?topic=814809>

Question 415

The incremental cash flow that Galt Motors will incur today (Year 0) if they elect to manufacture armatures in house is closest to:

A) -740,000

B) -700,000

C) -660,000

D) 740,000

Answer: <https://biology-forums.com/index.php?topic=815236>

Question 416

Luther's unlevered cost of capital is closest to:

A) 7.0%

B) 9.8%

C) 10.8%

D) 11.5%

Answer: <https://biology-forums.com/index.php?topic=815735>

Question 417

Which firm has the least market risk?

A) Eenie

B) Meenie

C) Miney

D) Moe

Answer: <https://biology-forums.com/index.php?topic=815643>

Question 418

Luther's earnings before interest, taxes, depreciation, and amortization (EBITDA) for the year ending December 31, 2009 is closest to:

A) 19.7 million

B) 37.6 million

C) 41.2 million

D) 44.8 million

Answer: <https://biology-forums.com/index.php?topic=814671>

Question 419

If a stock pays dividends at the end of each quarter, with realized returns of R_1 , R_2 , R_3 , and R_4 each quarter, then the annual realized return is calculated as:

- A) $R_{\text{annual}} =$
- B) $R_{\text{annual}} = (1 + R_1)(1 + R_2)(1 + R_3)(1 + R_4)$
- C) $R_{\text{annual}} = (1 + R_1)(1 + R_2)(1 + R_3)(1 + R_4) - 1$
- D) $R_{\text{annual}} = R_1 + R_2 + R_3 + R_4$

Answer: <https://biology-forums.com/index.php?topic=815384>

Question 420

If its managers engage in empire building, then the expected market value of Luther's assets is closest to:

- A) \$260
- B) \$280 million
- C) \$240
- D) \$300 million

Answer: <https://biology-forums.com/index.php?topic=816129>

Question 421

Based upon the three comparable firms, what asset beta would you recommend using for your firm's new project?

Answer: <https://biology-forums.com/index.php?topic=815905>

Question 422

Dagny's monthly payments are closest to:

- A) \$1110
- B) \$1800
- C) \$2215
- D) \$2245

Answer: <https://biology-forums.com/index.php?topic=814923>

Question 423

What is the price today of a two-year, default-free security with a face value of \$1000 and an annual coupon rate of 5.75%? Does this bond trade at a discount, premium, or at par?

Answer: <https://biology-forums.com/index.php?topic=815041>

Question 424

Galt Industries has a market capitalization of \$50 billion, \$30 billion in BBB rated debt, and \$8 billion in cash. If Galt's equity beta is 1.15, then Galt's underlying asset beta is closest to:

- A) 0.83
- B) 0.92
- C) 1.00
- D) 1.15

Answer: <https://biology-forums.com/index.php?topic=815709>

Question 425

Which of the following statements is FALSE?

- A) We measure the degree of estimation error statistically through the standard error of the estimate.
- B) When focusing on the returns of a single security, its common practice to assume that all dividends are immediately invested at the risk-free rate.
- C) We estimate the standard deviation or volatility as the square root of the variance.
- D) We estimate the variance by computing the average squared deviation from the average realized return.

Answer: <https://biology-forums.com/index.php?topic=815381>

Question 426

If the market risk premium is 6% and the risk-free rate is 4%, then the expected return of investing in Ford Motor Company is closest to:

- A) 10.0%
- B) 16.2%
- C) 17.1%
- D) 20.6%

Answer: <https://biology-forums.com/index.php?topic=815456>

Question 427

Suppose that Google stock has a beta of 1.06 and Boeing stock has a beta of 1.31. The beta on a portfolio that consists of 30% Google stock and 70% Boeing stock is closest to:

- A) 1.06
- B) 1.14
- C) 1.19
- D) 1.24

Answer: <https://biology-forums.com/index.php?topic=815574>

Question 428

Which of the following statements is FALSE?

- A) By convention, practitioners always plot the yield of the most senior issued bonds, termed the on-the-run-bonds.
- B) We can determine the no-arbitrage price of a coupon bond by discounting its cash flows using the zero-coupon yields.
- C) If the zero coupon yield curve is upward sloping, the resulting yield to maturity decreases with the coupon rate of the bond.
- D) The yield to maturity of a coupon bond is a weighted average of the yields on the zero-coupon bonds.

Answer: <https://biology-forums.com/index.php?topic=815027>

Question 429

Which of the following statements is FALSE?

- A) Because the WACC incorporates the tax savings from debt, we can compute the levered value of an investment, which is its value including the benefit of interest tax shields given the firm's leverage policy, by discounting its future free cash flow using the WACC.
- B) The WACC incorporates the benefit of the interest tax shield by using the firm's before-tax cost of capital for debt.
- C) When the market risk of the project is similar to the average market risk of the firm's investments, then its cost of capital is equivalent to the cost of capital for a portfolio of all of the firm's securities; that is, the project's cost of capital is equal to the firm's weighted average cost of capital (WACC).
- D) A project's cost of capital depends on its risk.

Answer: <https://biology-forums.com/index.php?topic=816241>

Question 430

The following equation:

$$X = rE + rD$$

can be used to calculate all of the following EXCEPT:

- A) the cost of capital for the firm's assets.
- B) the levered cost of equity.
- C) the unlevered cost of equity.
- D) the weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=815897>

Question 431

Assuming that Dewey's cost of capital is 12% EAR, then the number of potential IRRs that exist for this problem is equal to:

- A) 0
- B) 1
- C) 2
- D) 12

Answer: <https://biology-forums.com/index.php?topic=815101>

Question 432

Which of the following statements is FALSE?

- A) The market portfolio contains more of the smallest stocks and less of the larger stocks.
- B) For the market portfolio, the investment in each security is proportional to its market capitalization.
- C) Because the market portfolio is defined as the total supply of securities, the proportions should correspond exactly to the proportion of the total market that each security represents.
- D) Market capitalization is the total market value of the outstanding shares of a firm.

Answer: <https://biology-forums.com/index.php?topic=815664>

Question 433

Suppose that Rearden Metal made a surprise announcement that it would do a share repurchase rather than pay a special dividend, the net tax savings per share for an investor that would result from this decision is closest to:

- A) \$1.25
- B) \$3.75

C) \$4.00

D) \$5.00

Answer: <https://biology-forums.com/index.php?topic=816183>

Question 434

If you forgo the \$2500 rebate and finance your new car through the dealership your monthly payments (with payments made at the end of the month) will be closest to:

A) \$520

B) \$573

C) \$595

D) \$799

Answer: <https://biology-forums.com/index.php?topic=814913>

Question 435

Which of the following is NOT a way that a firm can increase its dividend?

A) By increasing its retention rate

B) By decreasing its shares outstanding

C) By increasing its earnings (net income)

D) By increasing its dividend payout rate

Answer: <https://biology-forums.com/index.php?topic=815270>

Question 436

Which of the following statements is FALSE?

A) Bond prices converge to the bond's face value due to the time effect, but simultaneously move up and down due to unpredictable changes in bond yields.

B) As interest rates and bond yields fall, bond prices will rise.

C) Bonds with higher coupon rates are more sensitive to interest rate changes.

D) Shorter maturity zero coupon bonds are less sensitive to changes in interest rates than are longer-term zero coupon bonds.

Answer: <https://biology-forums.com/index.php?topic=814997>

Question 437

Assume that Kinston's new machine will be depreciated using MACRS according to the following schedule:

Year 3 Years

1 33.33%

2 44.45%

3 14.81%

4 7.41%

What is the NPV of this project?

Answer: <https://biology-forums.com/index.php?topic=815235>

Question 438

Consider a bond that pays annually an 8% coupon with 20 years to maturity. The amount that the price of the bond will change if its yield to maturity increases from 5% to 7% is closest to:

A) -\$270

B) -\$225

C) -\$310

D) -\$250

Answer: <https://biology-forums.com/index.php?topic=815013>

Question 439

Alpha Beta Corporation maintains a constant debt-equity ratio of 0.5. The total value of the firm is \$30 million, and existing debt is riskless. Over the next three months, news will come out that will either raise or lower Alpha Beta's value by 10%. How will Alpha Beta adjust its debt level in response to keep its debt-equity ratio constant?

A) Either increase by \$1 million or decrease by \$1 million.

B) Either increase by \$1.5 million or decrease by \$1.5 million.

C) Either increase by \$3 million or decrease by \$3 million.

D) There will be no change - the debt-equity ratio will remain constant.

Answer: <https://biology-forums.com/index.php?topic=816374>

Question 440

The NPV for Omicron's new project is closest to:

- A) \$23.75
- B) \$27.50
- C) \$28.75
- D) \$25.75

Answer: <https://biology-forums.com/index.php?topic=816255>

Question 441

In a corporation, the ultimate decisions regarding business matters are made by:

- A) the Board of Directors.
- B) debt holders.
- C) shareholders.
- D) investors.

Answer: <https://biology-forums.com/index.php?topic=814585>

Question 442

Assume that Kinston's new machine will be depreciated straight line to a salvage value of \$5000 at the end of year three. What is the after-tax salvage value of this project?

Answer: <https://biology-forums.com/index.php?topic=815233>

Question 443

Which of the following formulas is INCORRECT?

- A) $Div_t = \text{Dividend Payout Rate} \times P_t$
- B) $PN = \frac{D}{r}$
- C) $\text{earnings growth rate} = \text{retention rate} \times \text{return on new investment}$
- D) $P_0 = \frac{D_1}{r} + \frac{D_2}{r^2} + \dots + \frac{D_n}{r^n} + \frac{P_n}{r^n}$

Answer: <https://biology-forums.com/index.php?topic=815277>

Question 444

If KT expects to maintain a debt to equity ratio for this project of .6 then KT's project based WACC, r_{wacc} , for this project is closest to:

- A) 10.5%
- B) 11.1%
- C) 9.6%
- D) 10.8%

Answer: <https://biology-forums.com/index.php?topic=816303>

Question 445

Luther's after-tax debt cost of capital is closest to:

- A) 4.2%
- B) 5.4%
- C) 7.0%
- D) 9.8%

Answer: <https://biology-forums.com/index.php?topic=815736>

Question 446

Which stock has the highest total risk?

- A) Merck since it has a lower volatility
- B) Merck since it has a higher Beta
- C) Exxon-Mobil since it has a higher volatility
- D) Exxon-Mobil since it has a lower beta

Answer: <https://biology-forums.com/index.php?topic=815466>

Question 447

The largest stock market in the world by market capitalization is:

- A) the London Stock Exchange.
- B) NASDAQ.
- C) the American Stock Exchange.
- D) the New York Stock Exchange.

Answer: <https://biology-forums.com/index.php?topic=814598>

Question 448

Which of the following equations is INCORRECT?

- A) $\text{Var}(R) =$
- B) $\text{SD}(R) =$
- C) $\text{Var}(R) = PR \times (R - E[R])^2$
- D) $E[R] = PR \times R$

Answer: <https://biology-forums.com/index.php?topic=815373>

Question 449

Suppose that Monsters' expected return is 12%. Then Monsters' alpha is closest to:

- A) -2.0%
- B) -1.0%
- C) 1.0%
- D) 0.5%

Answer: <https://biology-forums.com/index.php?topic=815593>

Question 450

Suppose that California Gold Mining's expected return is 2%. Then California Gold Mining's alpha is closest to:

- A) -3%
- B) -13%
- C) 7%
- D) -11%

Answer: <https://biology-forums.com/index.php?topic=815631>

Question 451

Consider the following time line:

If the current market rate of interest is 8%, then the present value of this timeline is closest to:

- A) \$1000
- B) \$857
- C) \$860
- D) \$926

Answer: <https://biology-forums.com/index.php?topic=814820>

Question 452

Including its cash, Omicron's total market value is closest to:

- A) \$500 million
- B) \$900 million
- C) \$400 million
- D) \$450 million

Answer: <https://biology-forums.com/index.php?topic=816159>

Question 453

Which of the following statements is FALSE?

- A) Stocks generally trade in lots of 1000 shares, and in any case do not trade in units less than one share.
- B) Non-cash special dividends are commonly used to spin off assets or a subsidiary as a separate company.
- C) The typical motivation for a stock split is to keep the share price in a range thought to be attractive to small investors.
- D) If a company declares a 10% stock dividend, each shareholder will receive one new share of stock for every 10 shares already owned.

Answer: <https://biology-forums.com/index.php?topic=816231>

Question 454

Consider a corporate bond with a \$1000 face value, 8% coupon with semiannual coupon payments, 7 years until maturity, and a YTM of 9%. It has been 57 days since the last coupon payment was made and there are 182 days in the current coupon period. The dirty (cash) price for this bond is closest to:

- A) \$949.70
- B) \$961.40
- C) \$936.40
- D) \$948.90

Answer: <https://biology-forums.com/index.php?topic=815021>

Question 455

Perrigo's debt to equity ratio is closest to:

- A) 0.24
- B) 0.50
- C) 0.75
- D) 0.89

Answer: <https://biology-forums.com/index.php?topic=814661>

Question 456

The YTM of a 4 year default free security with a face value of \$1000 and an annual coupon rate of 5.25% is closest to:

- A) 5.2%
- B) 5.0%
- C) 4.9%
- D) 5.25%

Answer: <https://biology-forums.com/index.php?topic=815040>

Question 457

Vacinox is a biotechnology firm that is about to announce the results of its clinical trials of a potential new vaccine. If the trials are successful, Vacinox stock will be worth \$80 per share. However, if the trials are not successful, then Vacinox stock will only be worth \$12 per share. If on the morning that the announcement is scheduled, Vacinox stock is trading for \$60.96, then the probability that investors place on the trials being successful are closest to:

- A) 48%
- B) 50%
- C) 60%
- D) 72%

Answer: <https://biology-forums.com/index.php?topic=815362>

Question 458

Which of the following statements is FALSE?

- A) We can use scenario analysis to evaluate alternative pricing strategies for our project.
- B) Scenario analysis considers the effect on NPV of changing multiple project parameters.
- C) The difference between the IRR of a project and the cost of capital tells you how much error in the cost of capital it would take to change the investment decision.
- D) Scenario analysis breaks the NPV calculation into its component assumptions and show how the NPV varies as each one of the underlying assumptions change.

Answer: <https://biology-forums.com/index.php?topic=815260>

Question 459

Suppose that BBB pays corporate taxes of 35% and that shareholders expects the change in debt to be permanent. Assuming that capital markets are perfect except for the existence of corporate taxes, the share price for BBB after this announcement is closest to:

- A) \$10.00
- B) \$10.85
- C) \$8.60
- D) \$11.40

Answer: <https://biology-forums.com/index.php?topic=816080>

Question 460

Which of the following is NOT considered to be an important choice when estimating beta?

- A) The choice of the time horizon to use for estimation
- B) The choice of method used to extrapolate beta
- C) The choice between weekly and monthly returns
- D) The choice of index used as the market portfolio

Answer: <https://biology-forums.com/index.php?topic=815739>

Question 461

Nielson Motors has a share price of \$25 today. If Nielson Motors is expected to pay a dividend of \$0.75 this year, and its stock price is expected to grow to \$26.75 at the end of the year, then Nielson's dividend yield and equity cost of capital are:

- A) 3.0% and 7.0% respectively.
- B) 3.0% and 10.0% respectively.

- C) 4.0% and 6.0% respectively.
D) 4.0% and 10.0% respectively.

Answer: <https://biology-forums.com/index.php?topic=815281>

Question 462

The risk premium for "Meenie" is closest to:

- A) 4.50%
B) 7.50%
C) 9.30%
D) 9.75%

Answer: <https://biology-forums.com/index.php?topic=815647>

Question 463

The total debt overhang associated with accepting project 1, is closest to:

- A) \$0 million
B) \$12.5 million
C) \$14.4 million
D) \$22.5 million

Answer: <https://biology-forums.com/index.php?topic=816087>

Question 464

Will adding the precious metals fund improve your portfolio?

Answer: <https://biology-forums.com/index.php?topic=815552>

Question 465

The standard deviation of the returns on the Index from 2000 to 2009 is closest to:

- A) 19.5%
B) 20.5%
C) 3.8%
D) 8.8%

Answer: <https://biology-forums.com/index.php?topic=815393>

Question 466

You are up late watching TV one night and see an ad from Ronco for the Dial-o-matic food slicer. You learn that the Dial-o-matic sells for \$29.95. But wait, there is more. Ronco is also including in this deal a set of Ginsu steak knives worth \$10.95 and another free gift worth \$7.95. Assuming that there is a competitive market for Ronco items, at what price must Ronco be selling this three item Dial-o-matic deal to insure the absence of an arbitrage opportunity and uphold the law of one price?

Answer: <https://biology-forums.com/index.php?topic=814761>

Question 467

The total debt overhang associated with accepting project 4, is closest to:

- A) \$0 million
B) \$13.5 million
C) \$15.0 million
D) \$38.6 million

Answer: <https://biology-forums.com/index.php?topic=816088>

Question 468

Suppose that to raise the funds for the initial investment the firm borrows \$40,000 at the risk free rate and issues new equity to cover the remainder. In this situation, the cost of capital for the firm's levered equity is closest to:

- A) 23%
B) 25%
C) 15%
D) 18%

Answer: <https://biology-forums.com/index.php?topic=815845>

Question 469

Assume that management makes a surprise announcement that JRN will no longer pay dividends but will use the cash to repurchase stock instead. The price of a share of JRN's stock is now closest to:

- A) \$20.00
- B) \$25.00
- C) \$18.00
- D) \$24.00

Answer: <https://biology-forums.com/index.php?topic=816177>

Question 470

How does scenario analysis differ from sensitivity analysis?

Answer: <https://biology-forums.com/index.php?topic=815266>

Question 471

Consider the following formula:

$$VL = VU +$$

The term represents:

- A) the value of the firm with leverage.
- B) the present value of the interest tax shield.
- C) the present value of the future interest payments.
- D) the interest tax shield each year.

Answer: <https://biology-forums.com/index.php?topic=815964>

Question 472

Assume that you purchased General Electric Company stock at the closing price on December 31, 2008 and sold it after the dividend had been paid at the closing price on January 26, 2009. Your total return rate (yield) for this period is closest to:

- A) 0.75%
- B) -8.80%
- C) 0.70%
- D) -8.15%

Answer: <https://biology-forums.com/index.php?topic=815387>

Question 473

Assuming that Dewey's cost of capital is 12% EAR, then the NPV of his retainer offer is closest to:

- A) -\$7500
- B) -\$7400
- C) \$6000
- D) \$7400

Answer: <https://biology-forums.com/index.php?topic=815099>

Question 474

Consider a growing perpetuity that will pay \$100 in one year. Each year after that, you will receive a payment on the anniversary of the last payment that is 6% larger than the last payment. This pattern of payments will continue forever. If the interest rate is 11%, then the value of this perpetuity is closest to:

- A) \$1667
- B) \$588
- C) \$2000
- D) \$909

Answer: <https://biology-forums.com/index.php?topic=814854>

Question 475

Consider the following equation:

$$P_{cum} - P_{ex} = Div \times$$

The term P_{cum} is:

- A) the personal tax rate for capital gains.
- B) the price per share after a dividend is paid.
- C) the price per share before a dividend is paid.
- D) the personal tax rate for dividend.

Answer: <https://biology-forums.com/index.php?topic=816186>

Question 476

Luther Corporation's stock price is \$39 per share and the company has 20 million shares outstanding. Its excess cash in 2009 is \$23.4. If EBIT is 41.2 and tax rate is 35%, its Return on Invested Capital in 2009 is closest to:

- A) 0.104
- B) 0.064
- C) 0.038
- D) 0.068

Answer: <https://biology-forums.com/index.php?topic=814704>

Question 477

The statement of financial position is also known as the:

- A) balance sheet.
- B) income statement.
- C) statement of cash flows.
- D) statement of stockholder's equity.

Answer: <https://biology-forums.com/index.php?topic=814622>

Question 478

At the conclusion of this transaction, the value of a share of d'Anconia Copper will be closest to:

- A) \$18.33
- B) \$20.00
- C) \$25.00
- D) \$27.50

Answer: <https://biology-forums.com/index.php?topic=815857>

Question 479

Which of the following statements is FALSE?

- A) Bond traders typically quote bond prices rather than bond yields .
- B) Treasury bills are zero-coupon bonds.
- C) Zero-coupon bonds always trade at a discount.
- D) The yield to maturity is typically stated as an annual rate by multiplying the calculated YTM by the number of coupon payment per year, thereby converting it to an APR.

Answer: <https://biology-forums.com/index.php?topic=814966>

Question 480

Details of acquisitions, spin-offs, leases, taxes, and risk management activities are given:

- A) in the management discussion and analysis.
- B) in the Securities and Exchange Commission's commentary.
- C) in the auditor's report.
- D) in the notes to the financial statements.

Answer: <https://biology-forums.com/index.php?topic=814658>

Question 481

Which of the following adjustments to net income is NOT correct if you are trying to calculate cash flow from operating activities?

- A) Add increases in accounts payable
- B) Add back depreciation
- C) Add increases in accounts receivable
- D) Deduct increases in inventory

Answer: <https://biology-forums.com/index.php?topic=814649>

Question 482

The weighted average cost of capital for "Moe" is closest to:

- A) 10.00%
- B) 7.75%
- C) 8.25%
- D) 8.50%

Answer: <https://biology-forums.com/index.php?topic=816253>

Question 483

Suppose that to fund this new project, Aardvark borrows \$150 with the principal to be paid in three equal installments at the end each year. Calculate the The levered value of Aardvark's new project.

Answer: <https://biology-forums.com/index.php?topic=816412>

Question 484

Wyatt Oil's excess return for 2009 is closest to:

- A) 18.6%
- B) 19.6%
- C) 20.0%
- D) 21.5%

Answer: <https://biology-forums.com/index.php?topic=815682>

Question 485

Which of the following statements is FALSE?

- A) The CAPM states that we should use the risk-free interest rate corresponding to the investment horizon of the firm's investors.
- B) To determine the risk premium for a stock using the security market line, we need an estimate of the market risk premium.
- C) When surveyed, the vast majority of large firms and financial analysts reported using the yields of Treasury Bills to determine the risk-free rate.
- D) The risk-free interest rate is generally determined using the yields of U.S. Treasury securities, which are free from default risk.

Answer: <https://biology-forums.com/index.php?topic=815744>

Question 486

Which of the following statements is FALSE?

- A) Because investors are risk averse, they will demand a risk premium to hold unsystematic risk.
- B) Over any given period, the risk of holding a stock is that the dividends plus the final stock price will be higher or lower than expected, which makes the realized return risky.
- C) The risk premium for diversifiable risk is zero, so investors are not compensated for holding firm-specific risk.
- D) Because investors can eliminate firm-specific risk "for free" by diversifying their portfolios, they will not require a reward or risk premium for holding it.

Answer: <https://biology-forums.com/index.php?topic=815431>

Question 487

Which of the following statements is FALSE?

- A) Even two firms in the same industry selling the same types of products, while similar in many respects, are likely to be of different size or scale.
- B) In the method of comparables, we estimate the value of the firm based on the value of other, comparable firms or investments that we expect will generate very similar cash flows in the future.
- C) Consider the case of a new firm that is identical to an existing publicly traded company. If these firms will generate identical cash flows, the Law of One Price implies that we can use the value of the existing company to determine the value of the new firm.
- D) A valuation multiple is a ratio of some measure of the firm's scale to the value of the firm.

Answer: <https://biology-forums.com/index.php?topic=815338>

Question 488

What is sensitivity analysis?

Answer: <https://biology-forums.com/index.php?topic=815265>

Question 489

Calculate the effective tax disadvantage for retaining cash in 1999, 2001, and 2005.

Answer: <https://biology-forums.com/index.php?topic=816221>

Question 490

The Sharpe Ratio for the market portfolio is closest to:

- A) 0.40
- B) 0.48
- C) 0.56
- D) 0.80

Answer: <https://biology-forums.com/index.php?topic=815547>

Question 491

Which of the following statements is FALSE?

- A) While debt itself may be cheap, it increases the risk and therefore the cost of capital of the firm's equity.
- B) Although debt does not have a lower cost of capital than equity, we can consider this cost in isolation.
- C) We can use Modigliani and Miller's first proposition to derive an explicit relationship between leverage and the equity cost of capital.
- D) The total market value of the firm's securities is equal to the market value of its assets, whether the firm is unlevered or levered.

Answer: <https://biology-forums.com/index.php?topic=815891>

Question 492

What is the expected payoff to equity holders with the speculative oil lease deal?

- A) \$10 million
- B) \$160 million
- C) \$275 million
- D) \$85 million

Answer: <https://biology-forums.com/index.php?topic=816101>

Question 493

What is the expected payoff to debt holders with the speculative oil lease deal?

- A) \$10 million
- B) \$275 million
- C) \$85 million
- D) \$160 million

Answer: <https://biology-forums.com/index.php?topic=816100>

Question 494

Assume that your capital is constrained, so that you only have \$600,000 available to invest in projects. If you invest in the optimal combination of projects given your capital constraint, then the total NPV for all the projects you invest in will be closest to:

- A) \$65,000
- B) \$80,000
- C) \$69,000
- D) \$111,000

Answer: <https://biology-forums.com/index.php?topic=815161>

Question 495

Which of the following is/are an advantage of incorporation?

- A) Access to capital markets
- B) Limited liability
- C) Unlimited life
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=814575>

Question 496

Which of the following statements is FALSE?

- A) A short sale is a transaction in which you buy a stock that you do not own and then agree to sell that stock back in the future.
- B) The efficient portfolios are those portfolios offering the lowest possible level of volatility for a given level of expected return.
- C) A positive investment in a security can be referred to as a long position in the security.
- D) It is possible to invest a negative amount in a stock or security, which is called a negative position.

Answer: <https://biology-forums.com/index.php?topic=815519>

Question 497

With the proper changes it is believed that Ideko's credit policies will allow for an account receivables days of 60. The forecasted accounts receivable for Ideko in 2007 is closest to:

- A) \$14,525
- B) \$16,970
- C) \$22,710
- D) \$19,690

Answer: <https://biology-forums.com/index.php?topic=816359>

Question 498

Which of the following statements is FALSE?

- A) Prices of bonds with lower durations are more sensitive to interest rate changes.
- B) When a bond is trading at a discount, the price increase between coupons will exceed the drop when a coupon is paid, so the bond's price will rise and its discount will decline as time passes.
- C) Coupon bonds may trade at a discount, at a premium, or at par.
- D) The sensitivity of a bond's price changes in interest rates is the bond's duration.

Answer: <https://biology-forums.com/index.php?topic=815002>

Question 499

Suppose that the managers at Rearden Metal will increase risk to maximize the expected payoff to equity holders. If Rearden has \$230 million in debt due in one year, then the expected value of Rearden's assets are closest to:

- A) \$280 million
- B) \$295 million
- C) \$300 million
- D) \$900 million

Answer: <https://biology-forums.com/index.php?topic=816124>

Question 500

The geometric average annual return on Stock A from 2000 to 2009 is closest to:

- A) 12.4%
- B) 16.7%
- C) 13.2%
- D) 17.8%

Answer: <https://biology-forums.com/index.php?topic=815400>

Question 501

Which of the following is NOT a step in the adjusted present value method?

- A) Deducting costs arising from market imperfections
- B) Calculating the unlevered value of the project
- C) Calculating the after-tax WACC
- D) Calculating the value of the interest tax shield

Answer: <https://biology-forums.com/index.php?topic=816265>

Question 502

Assuming that the risk-free rate is 4% and the expected return on the market is 12%, then required return on Peter's portfolio is closest to:

- A) 20%
- B) 22%
- C) 18%
- D) 16%

Answer: <https://biology-forums.com/index.php?topic=815635>

Question 503

Which of the following statements is FALSE?

- A) Depreciation is not a cash expense paid by the firm.
- B) Net Working Capital = Cash + Inventory + Payables - Receivables.
- C) Since 1997, companies can "carry back" losses for two years and "carry forward" losses for 20 years.
- D) Earnings do not represent real profits.

Answer: <https://biology-forums.com/index.php?topic=815200>

Question 504

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs. Suppose that at the start of the year, MI has no debt outstanding, but has 5.6 million shares of stock outstanding. If MI does not issue debt, its share price is closest to:

- A) \$5.15
- B) \$23.75
- C) \$23.90
- D) \$25.00

Answer: <https://biology-forums.com/index.php?topic=816066>

Question 505

Assuming that the film maker issues the new security, the NPV for this project is closest to what amount? Should the film maker make the investment?

- A) \$1.7 million; Yes
- B) \$1.7 million; No
- C) \$2.7 million; Yes
- D) \$2.7 million; No

Answer: <https://biology-forums.com/index.php?topic=814769>

Question 506

Rosewood's net income is closest to:

- A) \$450 million
- B) \$180 million
- C) \$290 million
- D) \$95 million

Answer: <https://biology-forums.com/index.php?topic=815941>

Question 507

Which of the following is NOT considered a difficulty with regards to the CAPM?

- A) Betas are not observed.
- B) Expected returns are not observed.
- C) The market proxy is not correct.
- D) Investors risk preferences are not observed.

Answer: <https://biology-forums.com/index.php?topic=815738>

Question 508

Which of the following statements is FALSE?

- A) The Sharpe ratio measures the ratio of volatility-to-reward provided by a portfolio.
- B) Borrowing money to invest in stocks is referred to as buying stocks on margin.
- C) The Sharpe ratio is the number of stand deviations the portfolio's return would have to fall to under-perform the risk-free investment.
- D) The slope of the line through a given portfolio is often referred to as the Sharpe ratio of the portfolio.

Answer: <https://biology-forums.com/index.php?topic=815532>

Question 509

Suppose that when these bonds were issued, Luther received a price of \$972.42 for each bond. What is the likely rating that Luther's bonds received?

- A) AA
- B) BBB
- C) B
- D) A

Answer: <https://biology-forums.com/index.php?topic=815065>

Question 510

Which of the following statements regarding Net Present Value (NPV) is INCORRECT?

- A) The NPV represents the value of the project in terms of cash today.
- B) Good projects will have a positive NPV.
- C) The NPV of a project is the difference between the present value of its benefits and the present value of its costs.
- D) When faced with a set of alternatives, choose the one with the lowest NPV in order to minimize the present value of costs.

Answer: <https://biology-forums.com/index.php?topic=814739>

Question 511

The Sharpe ratio for the market (which is a 50-50 combination of the value and growth portfolios) portfolio is closest to:

- A) .53
- B) .58
- C) .61
- D) .79

Answer: <https://biology-forums.com/index.php?topic=815576>

Question 512

The DuPont Identity expresses the firm's ROE in terms of:

- A) profitability, asset efficiency, and leverage.
- B) valuation, leverage, and interest coverage.
- C) profitability, margins, and valuation.
- D) equity, assets, and liabilities.

Answer: <https://biology-forums.com/index.php?topic=814691>

Question 513

Which of the following statements is FALSE?

- A) Problems can arise using the IRR method when the mutually exclusive investments have different cash flow patterns.
- B) The IRR is affected by the scale of the investment opportunity.
- C) Multiple incremental IRRs might exist.
- D) The incremental IRR rule assumes that the riskiness of the two projects is the same.

Answer: <https://biology-forums.com/index.php?topic=815133>

Question 514

A member of Iota's board of directors suggests that Iota's stock price would be higher if they used the \$200 million to repurchase shares instead of funding the expansion. If you were advising the board, what course of action would you recommend, expansion or repurchase? Which provides the higher stock price?

Answer: <https://biology-forums.com/index.php?topic=816219>

Question 515

The Volatility on Stock X's returns is closest to:

- A) 35%
- B) 10%
- C) 13%
- D) 42%

Answer: <https://biology-forums.com/index.php?topic=815493>

Question 516

Which of the following is NOT an operating expense?

- A) Interest expense
- B) Depreciation and amortization
- C) Selling, general and administrative expenses
- D) Research and development

Answer: <https://biology-forums.com/index.php?topic=814636>

Question 517

Floyd Ferris invested \$3000 into an account five years ago. Today his account has grown to have a balance of \$3927.50. Given that his account offered monthly compounding of interest, the APR on this account is closest to:

- A) 5.00%
- B) 5.25%
- C) 5.40%
- D) 5.54%

Answer: <https://biology-forums.com/index.php?topic=814907>

Question 518

Which of the following statements is FALSE?

- A) The levered equity return equals the unlevered return, plus an extra "kick" due to leverage.
- B) By holding a portfolio of the firm's equity and its debt, we can replicate the cash flows from holding its levered equity.
- C) The cost of capital of levered equity is equal to the cost of capital of unlevered equity plus a premium that is proportional to the market value debt-equity ratio.
- D) If a firm is unlevered, all of the free cash flows generated by its assets are available to be paid out to its equity holders.

Answer: <https://biology-forums.com/index.php?topic=815892>

Question 519

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$125 million face value due next year. The initial value of MI's debt is closest to:

- A) \$110 million
- B) \$105 million
- C) \$125 million
- D) \$111 million

Answer: <https://biology-forums.com/index.php?topic=816061>

Question 520

Which of the following is NOT a financial statement that every public company is required to produce?

- A) Income Statement
- B) Statement of Sources and Uses of Cash
- C) Balance Sheet

D) Statement of Stockholders' Equity

Answer: <https://biology-forums.com/index.php?topic=814608>

Question 521

Which of the following statements is FALSE?

- A) The most common valuation multiple is the price-earnings (P/E) ratio.
- B) You should be willing to pay proportionally more for a stock with lower current earnings.
- C) A firm's P/E ratio is equal to the share price divided by its earnings per share.
- D) The intuition behind the use of the P/E ratio is that when you buy a stock, you are in sense buying the rights to the firm's future earnings and differences in the scale of the firms' earnings are likely to persist.

Answer: <https://biology-forums.com/index.php?topic=815339>

Question 522

Which of the four bonds is the least sensitive to a one percent increase in the YTM?

- A) Bond A
- B) Bond B
- C) Bond C
- D) Bond D

Answer: <https://biology-forums.com/index.php?topic=815020>

Question 523

Consider a zero coupon bond with 20 years to maturity. The price will this bond trade if the YTM is 6% is closest to:

- A) \$215
- B) \$312
- C) \$335
- D) \$306

Answer: <https://biology-forums.com/index.php?topic=814976>

Question 524

What is a market value balance sheet and how does it differ from a book value balance sheet?

Answer: <https://biology-forums.com/index.php?topic=815881>

Question 525

Which of the following is unlikely to influence a firm's choice of capital structure?

- A) Taxes
- B) Agency costs and benefits of leverage
- C) Transaction costs
- D) All of the above influence capital structure decisions.

Answer: <https://biology-forums.com/index.php?topic=816140>

Question 526

Which of the following statements regarding the income statement is INCORRECT?

- A) The income statement shows the earnings and expenses at a given point in time.
- B) The income statement shows the flow of earnings and expenses generated by the firm between two dates.
- C) The last or "bottom" line of the income statement shows the firm's net income.
- D) The first line of an income statement lists the revenues from the sales of products or services.

Answer: <https://biology-forums.com/index.php?topic=814634>

Question 527

A 3 year default free security with a face value of \$1000 and an annual coupon rate of 6% will trade:

- A) at a discount.
- B) at a premium.
- C) at par.
- D) There is insufficient information provided to answer this question.

Answer: <https://biology-forums.com/index.php?topic=815035>

Question 528

Luther's return on equity (ROE) for the year ending December 31, 2009 is closest to:

- A) 2.0%

- B) 6.5%
- C) 8.4%
- D) 12.7%

Answer: <https://biology-forums.com/index.php?topic=814672>

Question 529

What is the effective after-tax rate of each instrument, expressed as an EAR?

Answer: <https://biology-forums.com/index.php?topic=814955>

Question 530

The alpha for the fad follower's portfolio is closest to:

- A) -0.9%
- B) 0.0%
- C) 3.6%
- D) 6.0%

Answer: <https://biology-forums.com/index.php?topic=815774>

Question 531

Assuming you just purchased 10,000 Bbls of WTI crude at the current market price, the added benefit (cost) to you if you were to refine this crude oil and sell the unleaded gasoline is closest to:

- A) \$730,600
- B) \$39,400
- C) \$770,000
- D) -\$39,400

Answer: <https://biology-forums.com/index.php?topic=814715>

Question 532

IF FBNA increases leverage so that its interest expense rises by \$1 million, then the amount its unlevered EBIT will change is closest to:

- A) \$0
- B) -\$400,000
- C) \$600,000
- D) \$400,000

Answer: <https://biology-forums.com/index.php?topic=815947>

Question 533

Assuming that Dewey's cost of capital is 12% EAR, then the IRR of his retainer offer is closest to:

- A) -39.3%
- B) -3.3%
- C) 20.0%
- D) 39.3%

Answer: <https://biology-forums.com/index.php?topic=815100>

Question 534

Galt's WACC is closest to:

- A) 10.6%
- B) 11.2%
- C) 11.8%
- D) 12.5%

Answer: <https://biology-forums.com/index.php?topic=815886>

Question 535

Consider an equally weighted portfolio that contains 100 stocks. If the average volatility of these stocks is 50% and the average correlation between the stocks is .7, then the volatility of this equally weighted portfolio is closest to:

- A) .72
- B) .63
- C) .40
- D) .50

Answer: <https://biology-forums.com/index.php?topic=815513>

Question 536

Which of the following statements is FALSE?

- A) If we increase the fraction invested in the efficient portfolio beyond 100% we are short selling the risk-free investment.
- B) As we increase the fraction invested in the efficient portfolio, we increase our risk premium but not our risk proportionately.
- C) To earn the highest possible expected return for any level of volatility we must find the portfolio that generates the steepest possible line when combined with the risk-free investment.
- D) Every investor should invest in the tangent portfolio independent of his or her taste for risk.

Answer: <https://biology-forums.com/index.php?topic=815534>

Question 537

The firm's assets and liabilities at a given point in time are reported on the firm's:

- A) income statement or statement of financial performance.
- B) income statement or statement of financial position.
- C) balance sheet or statement of financial performance.
- D) balance sheet or statement of financial position.

Answer: <https://biology-forums.com/index.php?topic=814621>

Question 538

The NPV of Iota's expansion project is closest to:

- A) -\$110 million
- B) -\$137.5 million
- C) \$0
- D) \$75 million

Answer: <https://biology-forums.com/index.php?topic=816218>

Question 539

When all investors correctly interpret and use their own information, as well as information that can be inferred from market prices or the trades of others, they are said to have:

- A) sensation seeking expectations.
- B) positive expectations.
- C) rational expectations.
- D) confident expectations.

Answer: <https://biology-forums.com/index.php?topic=815754>

Question 540

A type of agency problem that results in shareholders gaining from decisions that increase the risk of the firm sufficiently, even if they have negative NPV is:

- A) asset substitution.
- B) debt overhang.
- C) underinvestment.
- D) cashing out.

Answer: <https://biology-forums.com/index.php?topic=816102>

Question 541

Assume that to fund the investment Taggart will take on \$150 million in permanent debt with the remainder of the investment funded through issuance of new equity. Assume Taggart will incur a 2% (after-tax) underwriting fee on the new debt issue and a 5% underwriting fee on the issuance of new equity. If management believes Taggart's current share price of \$25 is \$3 less than its true value, then the NPV of Taggart's new rail line is closest to:

- A) \$185 million
- B) \$195 million
- C) \$200 million
- D) \$235 million

Answer: <https://biology-forums.com/index.php?topic=816322>

Question 542

Assuming that Casa Grande Farms depreciates these tractors straight line over the three year life, then the NPV of buying the tractors is closest to:

- A) 20,785
- B) 36,225
- C) 81,715
- D) 513,235

Answer: <https://biology-forums.com/index.php?topic=815252>

Question 543

Which of the following statements is FALSE?

- A) In general, the expected future spot interest rate will reflect investor's preferences toward the risk of future interest rate fluctuations.
- B) If investors did not care about risk, then they would be indifferent between investing in a two-year bond and investing in a one-year bond and rolling over the money in one-year.
- C) When we refer to the one-year forward rate for year 5, we mean the rate available today on a one-year investment that begins four years from today and is repaid five years from today.
- D) In general, we can compute the forward rate for year n by comparing an investment in an n -year, zero-coupon bond to an investment in an $(n + 1)$ year, zero-coupon bond, with the interest rate earned in the n th year being guaranteed through an interest rate forward contract.

Answer: <https://biology-forums.com/index.php?topic=815074>

Question 544

If ECE reported \$15 million in net income, then ECE's Return on Equity (ROE) is:

- A) 5.0%
- B) 7.5%
- C) 10.0%
- D) 15.0%

Answer: <https://biology-forums.com/index.php?topic=814684>

Question 545

The decision you should take regarding this project is

- A) reject the project since the NPV is negative.
- B) reject the project since the NPV is positive.
- C) accept the project since the IRR < 20%.
- D) accept the project since the IRR > 20%.

Answer: <https://biology-forums.com/index.php?topic=815086>

Question 546

Money that has been or will be paid regardless of the decision whether or not to proceed with the project is:

- A) cannibalization.
- B) considered as part of the initial investment in the project.
- C) an opportunity cost.
- D) a sunk cost.

Answer: <https://biology-forums.com/index.php?topic=815184>

Question 547

The price (expressed as a percentage of the face value) of a one-year, zero-coupon corporate bond with a BBB rating is closest to:

- A) 95.60
- B) 94.16
- C) 95.42
- D) 94.70

Answer: <https://biology-forums.com/index.php?topic=815056>

Question 548

Suppose over the next year Ball has a return of 12.5%, Lowes has a return of 20%, and Abbott Labs has a return of -10%. The return on your portfolio over the year is:

- A) 0%
- B) 7.5%
- C) 3.5%
- D) 5.0%

Answer: <https://biology-forums.com/index.php?topic=815478>

Question 549

The price of a five-year, zero-coupon, default-free security with a face value of \$1000 is closest to:

- A) \$754
- B) \$772
- C) \$776
- D) \$791

Answer: <https://biology-forums.com/index.php?topic=815037>

Question 550

A type of agency problem that results in shareholders gaining by choosing not to finance new, positive-NPV projects is:

- A) asset substitution.
- B) debt overhang.
- C) excessive risk-taking.
- D) distress costs.

Answer: <https://biology-forums.com/index.php?topic=816103>

Question 551

Assume that to fund the investment Taggart will take on \$150 million in permanent debt with the remainder of the investment funded through issuance of new equity. Assuming Taggart will incur a 2% (after-tax) underwriting fee on the new debt issue and a 5% underwriting fee on the issuance of new equity, the NPV of Taggart's new rail line is closest to:

- A) \$195 million
- B) \$200 million
- C) \$235 million
- D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816321>

Question 552

The after tax interest expense in 2008 is closest to:

- A) 2380
- B) 4420
- C) 6800
- D) 7820

Answer: <https://biology-forums.com/index.php?topic=816352>

Question 553

Which of the following statements is FALSE?

- A) Investors can alter the leverage choice of the firm to suit their personal tastes either by borrowing and reducing leverage or by holding bonds and adding more leverage.
- B) On the market value balance sheet the total value of all securities issued by the firm must equal the total value of the firm's assets.
- C) The market value balance sheet captures the idea that value is created by a firm's choice of assets and investments.
- D) One application of MM Proposition I is the useful device known as the market value balance sheet of the firm.

Answer: <https://biology-forums.com/index.php?topic=815865>

Question 554

If you sell this bond now, the internal rate of return you will earn on your investment will be closest to:

- A) 5.0%
- B) 4.9%
- C) 6.0%
- D) 8.0%

Answer: <https://biology-forums.com/index.php?topic=815010>

Question 555

The IRR for Boulderado's snowboard project is closest to:

- A) 10.4%
- B) 10.0%
- C) 11.0%
- D) 15.1%

Answer: <https://biology-forums.com/index.php?topic=815117>

Question 556

The tendency to hang on to losers and sell winners is known as the:

- A) cascade effect.
- B) disposition effect.
- C) overconfidence bias.
- D) systematic behavior bias.

Answer: <https://biology-forums.com/index.php?topic=815767>

Question 557

The volatility of your investment is closest to:

- A) 40%
- B) 20%
- C) 30%
- D) 24%

Answer: <https://biology-forums.com/index.php?topic=815538>

Question 558

Suppose over the next year Ball has a return of 12.5%, Lowes has a return of 20%, and Abbott Labs has a return of -10%. The weight on Lowes in your portfolio after one year is closest to:

- A) 20.0%
- B) 34.8%
- C) 30.0%
- D) 36.0%

Answer: <https://biology-forums.com/index.php?topic=815482>

Question 559

The Market's excess return for 2008 is closest to:

- A) -40.0%
- B) -38.5%
- C) -37.0%
- D) -34.1%

Answer: <https://biology-forums.com/index.php?topic=815683>

Question 560

If in the event of distress, the present value of distress costs is equal to \$5 million, then the optimal level of debt for d'Anconia Copper is:

- A) \$25 million
- B) \$50 million
- C) \$60 million
- D) \$70 million

Answer: <https://biology-forums.com/index.php?topic=816070>

Question 561

Wyatt Oil presently pays no dividend. You anticipate Wyatt Oil will pay an annual dividend of \$0.56 per share two years from today and you expect dividends to grow by 4% per year thereafter. IF Wyatt Oil's equity cost of capital is 12%, then the value of a share of Wyatt Oil today is:

- A) \$4.67
- B) \$5.00
- C) \$6.25
- D) \$7.00

Answer: <https://biology-forums.com/index.php?topic=815311>

Question 562

The difference between the weighted-average cost of capital (WACC) and the pre-tax (unlevered) WACC is:

- A) the weighted-average cost of capital is based on the after-tax cost of equity and the pre-tax WACC is based on the after-tax cost of debt.
- B) the weighted-average cost of capital multiplies the cost of equity and the cost of debt by (1-tax rate) and the pre-tax WACC does not.
- C) the weighted-average cost of capital multiplies the cost of debt by (1-tax rate) and the pre-tax WACC does not.
- D) the weighted-average cost of capital multiplies the component costs of equity and debt by their weight in the capital structure, and the pre-tax WACC does not.

Answer: <https://biology-forums.com/index.php?topic=815732>

Question 563

The correlation between the expected return and the market capitalization of these stocks is:

- A) negative.
- B) positive.
- C) zero.
- D) Unable to determine with the information given

Answer: <https://biology-forums.com/index.php?topic=815779>

Question 564

In a world with taxes, which of the following is the rate we should use to evaluate a project with the same risk and the same financing as the firm itself?

- A) The weighted-average cost of capital
- B) The pre-tax WACC
- C) The cost of equity
- D) The cost of debt

Answer: <https://biology-forums.com/index.php?topic=815734>

Question 565

If Flagstaff currently maintains a debt to equity ratio of 1, then the value of Flagstaff as a levered firm is closest to:

- A) \$114 million
- B) \$100 million
- C) \$111 million
- D) \$140 million

Answer: <https://biology-forums.com/index.php?topic=815976>

Question 566

Consider the following equation:

$$P_{cum} - P_{ex} = Div \times$$

The term P_{ex} is:

- A) the personal tax rate for dividend.
- B) the price per share before a dividend is paid.
- C) the price per share after a dividend is paid.
- D) the personal tax rate for capital gains.

Answer: <https://biology-forums.com/index.php?topic=816188>

Question 567

Suppose that Google stock has a beta of 1.06 and Boeing stock has a beta of 1.31. If the risk-free interest rate is 4% and the expected return from the market portfolio is 12%, then the expected return on a portfolio that consists of 30% Google stock and 70% Boeing stock is closest to:

- A) 12.5%
- B) 13.1%
- C) 13.5%
- D) 13.9%

Answer: <https://biology-forums.com/index.php?topic=815575>

Question 568

Which of the following statements is FALSE?

- A) Individuals in the highest tax brackets have a preference for stocks that pay high dividends, whereas tax-free investors and corporations have a preference for stocks with no or low dividends.
- B) To compare investor preferences, we must quantify the combined effects of dividend and capital gains taxes to determine an effective dividend tax rate for an investor.
- C) The dividend-capture theory states that absent transaction costs, investors can trade shares at the time of the dividend so that non-taxed investors receive the dividend.
- D) Differences in tax preferences create clientele effects, in which the dividend policy of a firm is optimized for the tax preference of its investor clientele.

Answer: <https://biology-forums.com/index.php?topic=816185>

Question 569

The percentage change in the price of the bond "A" if its yield to maturity increases from 5% to 6% is closest to:

- A) -4%
- B) -6%
- C) -1%
- D) 4%

Answer: <https://biology-forums.com/index.php?topic=815015>

Question 570

When we express the value of a cash flow or series of cash flows in terms of dollars today, we call it the _____ of the investment. If we express it in terms of dollars in the future, we call it the _____.

- A) present value; future value

- B) future value; present value
- C) ordinary annuity; annuity due
- D) discount factor; discount rate

Answer: <https://biology-forums.com/index.php?topic=814731>

Question 571

Which of the following statements is FALSE?

- A) The compounded geometric average return is most often used for comparative purposes.
- B) We should use the arithmetic average return when we are trying to estimate an investment's expected return over a future horizon based on its past performance.
- C) The geometric average return will always be above the arithmetic average return and the difference grows with the volatility of the annual returns.
- D) The geometric average return is a better description of the long-run historical performance of an investment.

Answer: <https://biology-forums.com/index.php?topic=815383>

Question 572

The profitability index for project B is closest to:

- A) 23.34
- B) 12.64
- C) 0.17
- D) 0.12

Answer: <https://biology-forums.com/index.php?topic=815155>

Question 573

The amount of net working capital for Ideko in 2008 is closest to:

- A) \$35,195
- B) \$26,420
- C) \$22,170
- D) \$30,510

Answer: <https://biology-forums.com/index.php?topic=816458>

Question 574

Portfolio "B":

- A) is less risky than the market portfolio.
- B) is overpriced.
- C) has a positive alpha.
- D) falls above the SML.

Answer: <https://biology-forums.com/index.php?topic=815786>

Question 575

The effective dividend tax rate for a pension fund in 1999 is closest to:

- A) 40%
- B) 20%
- C) 0%
- D) 25%

Answer: <https://biology-forums.com/index.php?topic=816196>

Question 576

The value of KD's unlevered equity is closest to:

- A) \$600 million
- B) \$470 million
- C) \$390 million
- D) \$400 million

Answer: <https://biology-forums.com/index.php?topic=815988>

Question 577

Assuming that your capital is constrained, which investment tool should you use to determine the correct investment decisions?

- A) Profitability Index
- B) Incremental IRR
- C) NPV
- D) IRR

Answer: <https://biology-forums.com/index.php?topic=815156>

Question 578

Suppose that MI has zero-coupon debt with a \$140 million face value due next year. Calculate the value of levered equity, the value of debt, and the total value of MI with leverage.

Answer: <https://biology-forums.com/index.php?topic=816038>

Question 579

What is the expected payoff for Big Cure's Blockbuster drug?

- A) \$100 million
- B) \$0
- C) \$1 billion
- D) \$500 million

Answer: <https://biology-forums.com/index.php?topic=815420>

Question 580

The future value at retirement (age 65) of your savings is closest to:

- A) \$497,530
- B) \$928,895
- C) \$1,263,236
- D) \$108,000

Answer: <https://biology-forums.com/index.php?topic=814857>

Question 581

In terms of present value, how much will Joe receive for selling the family business?

Answer: <https://biology-forums.com/index.php?topic=814834>

Question 582

Consider a zero coupon bond with 20 years to maturity. The amount that the price of the bond will change if its yield to maturity decreases from 7% to 5% is closest to:

- A) \$120
- B) -\$53
- C) \$53
- D) \$673

Answer: <https://biology-forums.com/index.php?topic=815011>

Question 583

Which of the following statements is FALSE?

- A) If there is a fixed supply of a resource available, you should rank projects by the profitability index, selecting the project with the lowest profitability index first and working your way down the list until the resource is consumed.
- B) Practitioners often use the profitability index to identify the optimal combination of projects when there is a fixed supply of resources.
- C) If there is a fixed supply of resources available, so that you cannot undertake all possible opportunities, then simply picking the highest NPV opportunity might not lead to the best decision.
- D) The profitability index is calculated as the NPV divided by the resources consumed by the project.

Answer: <https://biology-forums.com/index.php?topic=815150>

Question 584

The NPV of an investment that costs \$2700 and pays \$1000 certain at the end of one, three, and five years is closest to:

- A) 21.47
- B) \$1665.62
- C) -100.26
- D) -71.38

Answer: <https://biology-forums.com/index.php?topic=814941>

Question 585

If DM has \$500 million of debt and 14 million shares of stock outstanding, then what is the price per share for DM Corporation?

Answer: <https://biology-forums.com/index.php?topic=815337>

Question 586

If the appropriate discount rate for this project is 15%, then the NPV is closest to:

- A) \$6000
- B) -\$867
- C) \$1420
- D) \$867

Answer: <https://biology-forums.com/index.php?topic=815089>

Question 587

Portfolio "A":

- A) has a relatively lower expected return than predicted.
- B) has a positive alpha.
- C) falls below the SML.
- D) is overpriced.

Answer: <https://biology-forums.com/index.php?topic=815787>

Question 588

Calculate the correlation between Stock Y's and Stock Z's returns .

Answer: <https://biology-forums.com/index.php?topic=815504>

Question 589

Assume that investors in Google pay a 15% tax rate on income from equity and a 35% tax rate on interest income. If Google were to issue sufficient debt to reduce its taxes by \$1 billion per year permanently, then the effective tax advantage of this debt would be closest to:

- A) 10%
- B) 15%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=815998>

Question 590

A group of portfolios from which we can form an efficient portfolio are called:

- A) factor portfolios.
- B) semi-efficient portfolios.
- C) partially efficient portfolios.
- D) characteristic portfolios.

Answer: <https://biology-forums.com/index.php?topic=815808>

Question 591

Using the average historical excess returns for both Wyatt Oil and the Market portfolio estimate of Wyatt Oil's Beta. When using this beta, the alpha for Wyatt oil in 2007 is closest to:

- A) -0.5000%
- B) -0.0250%
- C) -0.0125%
- D) +0.0250%

Answer: <https://biology-forums.com/index.php?topic=815685>

Question 592

Consider the following timeline detailing a stream of cash flows:

If the current market rate of interest is 8%, then the present value of this stream of cash flows is closest to:

- A) \$22,871
- B) \$21,211
- C) \$24,074
- D) \$26,000

Answer: <https://biology-forums.com/index.php?topic=814825>

Question 593

Wyatt Oil just reported that a major fire destroyed one of its oil production facilities in Colorado. While the facility was fully insured, the loss of oil production will decrease Wyatt's free cash flow by \$120 million at the end of this year and by \$80 million at the end of next year. Wyatt has 50 million shares outstanding and has a weighted average cost of capital of 9%. Assuming the value of Wyatt's debt is not affected by this event, the expected decrease in Wyatt's stock price is closest to:

- A) \$2.00

- B) \$3.55
- C) \$3.87
- D) \$4.00

Answer: <https://biology-forums.com/index.php?topic=815361>

Question 594

The date on which the board authorizes the dividend is the:

- A) declaration date.
- B) distribution date.
- C) record date.
- D) ex-dividend date.

Answer: <https://biology-forums.com/index.php?topic=816141>

Question 595

Off-balance sheet transactions are required to be disclosed:

- A) in the management discussion and analysis.
- B) in the auditor's report.
- C) in the Securities and Exchange Commission's commentary.
- D) in the statement of stockholders' equity.

Answer: <https://biology-forums.com/index.php?topic=814657>

Question 596

The amount of net working capital for Ideko in 2006 is closest to:

- A) \$22,750
- B) \$35,195
- C) \$30,510
- D) \$26,420

Answer: <https://biology-forums.com/index.php?topic=816456>

Question 597

Assuming you pay the points and borrow from the mortgage lender at 6.00%, then your monthly mortgage payment (with payments made at the end of the month) will be closest to:

- A) \$708
- B) \$1530
- C) \$1540
- D) \$1600

Answer: <https://biology-forums.com/index.php?topic=814915>

Question 598

Which of the following statements is FALSE?

- A) The CAPM remains the predominant model used in practice to determine the equity cost of capital.
- B) Low beta stocks have tended to perform somewhat better than the CAPM predicts.
- C) The empirically estimated security market line is somewhat steeper than that predicted by the CAPM.
- D) Some evidence suggests that the market risk premium has declined over time.

Answer: <https://biology-forums.com/index.php?topic=815745>

Question 599

The standard deviation of the returns on Stock A from 2000 to 2009 is closest to:

- A) 33.2%
- B) 16.4%
- C) 31.5%
- D) 11.0%

Answer: <https://biology-forums.com/index.php?topic=815394>

Question 600

Calculate the interest tax shield, the total amount available to payout to all the investors, and the income that would be available to equity holders if Kroger was not levered for the year 2004.

Answer: <https://biology-forums.com/index.php?topic=815948>

Question 601

The expected overall payoff to Bank A is:

- A) \$5,000,000
- B) \$6,000,000
- C) \$94,000,000
- D) \$95,000,000

Answer: <https://biology-forums.com/index.php?topic=815416>

Question 602

Which of the following statements is FALSE?

- A) If some security were not part of the efficient portfolio, then every investor would want to own it, and demand for this security would increase causing its expected return to fall until it is no longer an attractive investment.
- B) The efficient portfolio, the portfolio that all investors should hold, must be the same portfolio as the market portfolio of all risky securities.
- C) Because every security is owned by someone, the sum of all investors' portfolios must equal the portfolio of all risky securities available in the market.
- D) If all investors demand the efficient portfolio, and since the supply of securities is the market portfolio, then two portfolios must coincide.

Answer: <https://biology-forums.com/index.php?topic=815663>

Question 603

The forward rate for year 2 (the forward rate quoted today for an investment that begins in one year and matures in two years) is closest to:

- A) 5.80%
- B) 5.50%
- C) 5.20%
- D) 5.65%

Answer: <https://biology-forums.com/index.php?topic=815077>

Question 604

The Debt Capacity for Omicron's new project in year 1 is closest to:

- A) \$38.75
- B) \$48.25
- C) \$50.25
- D) \$58.00

Answer: <https://biology-forums.com/index.php?topic=816257>

Question 605

A stock's alpha is defined as the stock's:

- A) expected return minus its required return.
- B) expected return minus its actual return.
- C) nominal return minus its required return.
- D) required return minus its actual return.

Answer: <https://biology-forums.com/index.php?topic=815753>

Question 606

Suppose over the next year Ball has a return of 12.5%, Lowes has a return of 20%, and Abbott Labs has a return of -10%. The weight on Abbott Labs in your portfolio after one year is closest to:

- A) -10.0%
- B) 43.5%
- C) 45.0%
- D) 50.0%

Answer: <https://biology-forums.com/index.php?topic=815481>

Question 607

Which of the following statements is FALSE?

- A) An inverted yield curve generally signals an expected decline in future interest rates.
- B) An inverted yield curve is often interpreted as a positive forecast for economic growth.
- C) All the formulas for computing present values of annuities and perpetuities are based upon discounting all of the cash flows at the same rate.
- D) The rate of growth of your purchasing power is determined by the real interest rate.

Answer: <https://biology-forums.com/index.php?topic=814932>

Question 608

Which of the following statements is FALSE?

- A) The Law of One Price implies that leverage will affect the total value of the firm under perfect capital market conditions.
- B) In the absence of taxes or other transaction costs, the total cash flow paid out to all of a firm's security holders is equal to the total cash flow generated by the firm's assets.
- C) With perfect capital markets, leverage merely changes the allocation of cash flows between debt and equity, without altering the total cash flows of the firm.
- D) In a perfect capital market, the total value of a firm is equal to the market value of the total cash flows generated by its assets and is not affected by its choice of capital structure.

Answer: <https://biology-forums.com/index.php?topic=815861>

Question 609

The change in Net working capital from year one to year two is closest to:

- A) A decrease of \$360
- B) An increase of \$360
- C) An increase of \$396
- D) A decrease of \$396

Answer: <https://biology-forums.com/index.php?topic=815214>

Question 610

Which of the following is NOT a reason why cash flow may not equal net income?

- A) Amortization is added in when calculating net income.
- B) Changes in inventory will change cash flows but not income.
- C) Capital expenditures are not recorded on the income statement.
- D) Depreciation is deducted when calculating net income.

Answer: <https://biology-forums.com/index.php?topic=814648>

Question 611

Assuming that college costs continue to increase an average of 4% per year and that all her college savings are invested in an account paying 7% interest, then the amount of money she will need to have available at age 18 to pay for all four years of her undergraduate education is closest to:

- A) \$97,110
- B) \$107,532
- C) \$101,291
- D) \$50,000

Answer: <https://biology-forums.com/index.php?topic=814847>

Question 612

Which of the following is NOT an indirect cost of bankruptcy?

- A) Legal fees
- B) Delayed liquidation
- C) Costs to creditors
- D) Loss of customers

Answer: <https://biology-forums.com/index.php?topic=816054>

Question 613

Assume that you purchased General Electric Company stock at the closing price on December 31, 2008 and sold it after the dividend had been paid at the closing price on January 26, 2009. Your capital gains rate (yield) for this period is closest to:

- A) 0.75%
- B) 0.70%
- C) -8.80%
- D) -8.15%

Answer: <https://biology-forums.com/index.php?topic=815386>

Question 614

Nielson Motors should accept those projects with profitability ratios greater than:

- A) 0.15
- B) 0.175
- C) 0.20
- D) 0.225

Answer: <https://biology-forums.com/index.php?topic=816085>

Question 615

The expected return on security with a beta of 1.2 is closest to:

- A) 4.8%
- B) 8.0%
- C) 8.8%
- D) 9.6%

Answer: <https://biology-forums.com/index.php?topic=815445>

Question 616

Assuming that Tom wants to maintain the current volatility of his portfolio, then the amount that Tom should invest in the market portfolio to maximize his expected return is closest to:

- A) 72%
- B) 92%
- C) 110%
- D) 140%

Answer: <https://biology-forums.com/index.php?topic=815578>

Question 617

The effective dividend tax rate for a one-year individual investor in 1999 is closest to:

- A) 0%
- B) 20%
- C) 25%
- D) 40%

Answer: <https://biology-forums.com/index.php?topic=816195>

Question 618

The expected return for Wyatt Oil is closest to:

- A) 11.4%
- B) 11.8%
- C) 12.0%
- D) 12.6%

Answer: <https://biology-forums.com/index.php?topic=815567>

Question 619

The risk-free rate is closest to:

- A) 0%
- B) 4%
- C) 8%
- D) 16%

Answer: <https://biology-forums.com/index.php?topic=815441>

Question 620

Which of the following statements is FALSE?

- A) The unlevered beta measures the market risk of the firm's business activities, ignoring any additional risk due to leverage.
- B) If a firm holds \$1 in cash and has \$1 of risk-free debt, then the interest earned on the cash will equal the interest paid on the debt. The cash flows from each source cancel each other, just as if the firm held no cash and no debt.
- C) The unlevered beta measures the market risk of the firm without leverage, which is equivalent to the beta of the firm's assets.
- D) When a firm changes its capital structure without changing its investments, its levered beta will remain unaltered, however, its asset beta will change to reflect the effect of the capital structure change on its risk.

Answer: <https://biology-forums.com/index.php?topic=815896>

Question 621

Luther Corporation's stock price is \$39 per share and the company has 20 million shares outstanding. Its book value Debt -Equity Ratio for 2009 is closest to:

- A) 2.29
- B) 0.31
- C) 1.89
- D) 0.37

Answer: <https://biology-forums.com/index.php?topic=814700>

Question 622

FBNA's EBIT is closest to:

- A) \$43 million
- B) \$40 Million
- C) \$45 million
- D) \$60 million

Answer: <https://biology-forums.com/index.php?topic=815945>

Question 623

If its managers increase the risk of the firm, then the expected market value of Luther's assets is closest to:

- A) \$260
- B) \$240
- C) \$300 million
- D) \$280 million

Answer: <https://biology-forums.com/index.php?topic=816130>

Question 624

Calculate Rockwood's stock price following the market becoming aware of the new information regarding Rockwood's true value, if (1) Rockwood completed the repurchase prior to the market becoming aware of the information and (2) Rockwood completed the repurchase following the market becoming aware of the new information.

Answer: <https://biology-forums.com/index.php?topic=816229>

Question 625

Which of the following statements is FALSE?

- A) When evaluating a capital budgeting decision, the correct tax rate to use is the firm's average corporate tax rate.
- B) To determine the capital budget, firms analyze alternative projects and decide which ones to accept through a process called capital budgeting.
- C) A new product typically has lower sales initially, as customers gradually become aware of the product.
- D) Sunk costs have been or will be paid regardless of the decision whether or not to proceed with the project.

Answer: <https://biology-forums.com/index.php?topic=815175>

Question 626

Omicron's weighted average cost of capital is closest to:

- A) 7.10%
- B) 7.50%
- C) 9.60%
- D) 8.75%

Answer: <https://biology-forums.com/index.php?topic=816254>

Question 627

Based upon the average EV/Sales ratio of the comparable firms, Ideko's target economic value is closest to:

- A) \$191 million
- B) \$155 million
- C) \$165 million
- D) \$157 million

Answer: <https://biology-forums.com/index.php?topic=816339>

Question 628

The free cash flow to the firm in 2008 is closest to:

- A) -5005
- B) -1755
- C) 5575
- D) 14,995

Answer: <https://biology-forums.com/index.php?topic=816448>

Question 629

If Flagstaff currently maintains a debt to equity ratio of 1, then the value of Flagstaff as an all equity firm would be closest to:

- A) \$73 million

- B) \$80 million
- C) \$115 million
- D) \$100 million

Answer: <https://biology-forums.com/index.php?topic=815974>

Question 630

If the risk-free rate of interest is 7.5%, then the value of security "A" is closest to:

- A) \$91.00
- B) \$92.50
- C) \$93.00
- D) \$100.00

Answer: <https://biology-forums.com/index.php?topic=814771>

Question 631

Which of the following statements is false regarding profitable and unprofitable growth?

- A) If a firm wants to increase its share price, it must cut its dividend and invest more.
- B) If the firm retains more earnings, it will be able to pay out less of those earnings, which means that the firm will have to reduce its dividend.
- C) A firm can increase its growth rate by retaining more of its earnings.
- D) Cutting the firm's dividend to increase investment will raise the stock price if, and only if, the new investments have a positive NPV.

Answer: <https://biology-forums.com/index.php?topic=815271>

Question 632

Which of the following statements is FALSE?

- A) There may be reasons to exclude certain historical data as anomalous when estimating beta.
- B) Many practitioners use adjusted betas, which are calculated by averaging the estimated beta with 1.0.
- C) The beta estimated from linear regression can be very sensitive to outliers, which are returns of unusually small magnitude.
- D) If we use very old data to when estimating beta, they data may be unrepresentative of the current market risk of the security.

Answer: <https://biology-forums.com/index.php?topic=815742>

Question 633

The market value for Chihuahua is closest to:

- A) \$10.0 million
- B) \$12.5 million
- C) \$12.0 million
- D) \$15 million

Answer: <https://biology-forums.com/index.php?topic=815794>

Question 634

Consider an ETF that is made up of one share each of IBM, MRK, and C. The current quote for this ETF currently is \$162.85 (bid) \$163.00 (ask). What should you do?

Answer: <https://biology-forums.com/index.php?topic=814799>

Question 635

If Flagstaff currently maintains a .8 debt to equity ratio, then calculate the value of Flagstaff's interest tax shield.

Answer: <https://biology-forums.com/index.php?topic=815981>

Question 636

Which of the following statements is FALSE?

- A) A portfolio costs nothing to construct is called a self-financing portfolio.
- B) The most obvious portfolio to use in a multifactor model is the market portfolio itself.
- C) In general, a self-financing portfolio is any portfolio with portfolio weights that sum to one rather than zero.
- D) We can construct a self-financing portfolio by going long some stocks, and going short other stocks with equal market value.

Answer: <https://biology-forums.com/index.php?topic=815815>

Question 637

Which of the following statements is FALSE?

- A) Unlike with capital structure, taxes are not an important market imperfection that influence a firm's decision to pay dividends or repurchase shares.
- B) If dividends are taxed at a higher rate than capital gains, which has been true until the most recent change to the tax code, shareholders will prefer share repurchases to dividends.

C) Shareholders typically must pay taxes on the dividends they receive. They must also pay capital gains taxes when they sell their shares.
D) Because long-term investors can defer the capital gains tax until they sell, there is still a tax advantage for share repurchases over dividends.
Answer: <https://biology-forums.com/index.php?topic=816173>

Question 638

Which of the following statements is FALSE?

- A) Fluctuations of a stock's returns that are due to firm-specific news are common risks.
- B) The volatility in a large portfolio will decline until only the systematic risk remains.
- C) When we combine many stocks in a large portfolio, the firm-specific risks for each stock will average out and be diversified.
- D) The risk premium of a security is determined by its systematic risk and does not depend on its diversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=815432>

Question 639

Which of the following statements is FALSE?

- A) Firms with high R&D costs and future growth opportunities typically maintain high debt levels.
- B) The tradeoff theory explains how firms should choose their capital structures to maximize value to current shareholders.
- C) With tangible assets, the financial distress costs of leverage are likely to be low, as the assets can be liquidated for close to their full value.
- D) Proponents of the management entrenchment theory of capital structure believe that managers choose a capital structure to avoid the discipline of debt and maintain their own job security.

Answer: <https://biology-forums.com/index.php?topic=816126>

Question 640

Which of the following types of risk doesn't belong?

- A) Idiosyncratic risk
- B) Undiversifiable risk
- C) Market risk
- D) Systematic risk

Answer: <https://biology-forums.com/index.php?topic=815428>

Question 641

Assume that projects A and B are mutually exclusive. The correct investment decision and the best rational for that decision is to:

- A) invest in project A since $NPVB < NPVA$.
- B) invest in project B since $IRR_B > IRR_A$.
- C) invest in project B since $NPVB > NPVA$.
- D) invest in project A since $NPVA > 0$.

Answer: <https://biology-forums.com/index.php?topic=815139>

Question 642

Which of the following statements is FALSE?

- A) The total payout model allows us to ignore the firm's choice between dividends and share repurchases.
- B) By repurchasing shares, the firm increases its share count, which decreases its earning and dividends on a per-share basis.
- C) The total payout model discounts the total payouts that the firm makes to shareholders, which is the total amount spent on both dividends and share repurchases.
- D) In the dividend discount model, we implicitly assume that any cash paid out to the shareholders takes the form of a dividend.

Answer: <https://biology-forums.com/index.php?topic=815314>

Question 643

You are considering investing in a security that will pay you \$80 in interest at the end of each of the next 10 years. If this security is currently selling for \$588.81, then the IRR for investing in this security is closest to:

- A) 6.0%
- B) 7.0%
- C) 6.5%
- D) 5.0%

Answer: <https://biology-forums.com/index.php?topic=814887>

Question 644

A mining company is offering to trade you 7250 tons of low-grade copper ore for 5000 tons of high-grade copper ore. Assuming you currently have 5000 tons of high-grade ore, what should you do?

Answer: <https://biology-forums.com/index.php?topic=814720>

Question 645

The weighted average cost of capital for "Meenie" is closest to:

- A) 10.5%
- B) 7.4%
- C) 10.0%
- D) 8.8%

Answer: <https://biology-forums.com/index.php?topic=816251>

Question 646

Which of the following statements is FALSE?

- A) If firms smooth dividends, the firm's dividend choice will contain information regarding management's expectations of future earnings.
- B) Because of the increasing popularity of repurchases, firms cut dividends much more frequently than they increase them.
- C) Announcing a share repurchase today does not necessarily represent a long-term commitment to repurchase shares.
- D) While cutting the dividend is costly for managers in terms of their reputation and the reaction of investors, it is by no means as costly as failing to make debt payments.

Answer: <https://biology-forums.com/index.php?topic=816223>

Question 647

What is the expected value of Rearden's assets if it were run efficiently?

- A) \$265 million
- B) \$280 million
- C) \$295 million
- D) \$300 million

Answer: <https://biology-forums.com/index.php?topic=816120>

Question 648

If Wyatt adjusts its debt once per year to maintain a constant debt-equity ratio of 50%, then the value of this new project is closest to:

- A) \$188 million
- B) \$188.5 million
- C) \$320 million
- D) \$340 million

Answer: <https://biology-forums.com/index.php?topic=816330>

Question 649

If in 2009 Luther has 10.2 million shares outstanding and these shares are trading at \$16 per share, then what is Luther's Enterprise Value?

- A) -\$63.3 million
- B) \$353.1 million
- C) \$389.7 million
- D) \$516.9 million

Answer: <https://biology-forums.com/index.php?topic=814631>

Question 650

Assuming that Casa Grande Farms depreciates these tractors using MACRS depreciation method for three-year property starting immediately, then the annual depreciation tax shield in year 2 is closest to:

- A) 20,785
- B) 27,991
- C) 84,000
- D) 180,000

Answer: <https://biology-forums.com/index.php?topic=815250>

Question 651

The Sarbanes-Oxley Act (SOX) stiffened penalties for providing false information by:

- A) requiring the CEO and CFO to return bonuses or profits from the sale of stock that are later shown to be due to misstated financial reports.
- B) imposing large compliance costs on small companies.
- C) requiring auditing firms to have long-standing relationships with their clients and receive lucrative auditing and consulting fees from them.
- D) putting strict limits on the amount of non-audit fees (consulting or otherwise) that an accounting firm can earn from a firm that it audits.

Answer: <https://biology-forums.com/index.php?topic=814706>

Question 652

The beta for the market portfolio is closest to:

- A) 1
- B) 0
- C) Unable to answer this question without knowing the markets expected return
- D) Unable to answer this question without knowing the markets volatility

Answer: <https://biology-forums.com/index.php?topic=815589>

Question 653

Suppose Luther Industries is considering divesting one of its product lines. The product line is expected to generate free cash flows of \$2 million per year, growing at a rate of 3% per year. Luther has an equity cost of capital of 10%, a debt cost of capital of 7%, a marginal tax rate of 35%, and a debt-equity ratio of 2. If this product line is of average risk and Luther plans to maintain a constant debt-equity ratio, what after-tax amount must it receive for the product line in order for the divestiture to be profitable?

Answer: <https://biology-forums.com/index.php?topic=816264>

Question 654

Which of the following equations is INCORRECT?

- A) Expected future spot interest rate = forward interest rate + risk premium
- B) $(1 + f_1) \times (1 + f_2) \times (1 + f_3) \times \dots \times (1 + f_n) = (1 + YTM_n)^n$
- C) $f_n = -1$
- D) $(1 + YTM_n)^n = (1 + YTM_n - 1)^n - 1(1 + f_n)$

Answer: <https://biology-forums.com/index.php?topic=815076>

Question 655

Which of the following statements is FALSE?

- A) A significant fraction of investors might care about aspects of their portfolios other than expected return and volatility, and so would be unwilling to hold inefficient investment portfolios.
- B) Although the true market portfolio of all invested wealth might be efficient, the proxy portfolio might not track the actual market very well.
- C) We might be using the wrong proxy portfolio when we calculate alphas.
- D) The true market portfolio consists of all traded investment wealth in the economy.

Answer: <https://biology-forums.com/index.php?topic=815803>

Question 656

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$125 million face value due next year. The yield to maturity of MI's debt is closest to:

- A) 13.75%
- B) 5.00%
- C) 19.25%
- D) 12.50%

Answer: <https://biology-forums.com/index.php?topic=816062>

Question 657

Assume that you are an investor with the disposition effect and you bought each of these stocks in January. Suppose that it is currently the end of March, which stocks are you most inclined to hold?

1. Taggart Transcontinental
2. Rearden Metal
3. Wyatt Oil
4. Nielson Motors

- A) 1 only
- B) 1 and 3 only
- C) 2 only
- D) 2 and 4 only

Answer: <https://biology-forums.com/index.php?topic=815763>

Question 658

The beta for security "Y" is closest to:

- A) -1.00
- B) -0.25
- C) 0.00

D) 0.25

Answer: <https://biology-forums.com/index.php?topic=815439>

Question 659

The price per share of Iota if they use the \$200 million to expand is closest to:

- A) \$13.75
- B) \$16.50
- C) \$19.00
- D) \$16.80

Answer: <https://biology-forums.com/index.php?topic=816216>

Question 660

The overall cost of capital for Wyatt Oil is closest to:

- A) 8.1%
- B) 8.5%
- C) 8.8%
- D) 9.3%

Answer: <https://biology-forums.com/index.php?topic=815728>

Question 661

The term is a(n):

- A) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the second factor portfolio.
- B) error term that has an expectation of zero and is uncorrelated with either factor.
- C) constant term.
- D) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the first factor portfolio.

Answer: <https://biology-forums.com/index.php?topic=815810>

Question 662

Prior to any borrowing and share repurchase, the equity cost of capital for RC is closest to:

- A) 11%
- B) 10%
- C) 12%
- D) 9%

Answer: <https://biology-forums.com/index.php?topic=815918>

Question 663

The beta for security "X" is closest to:

- A) 0
- B) 0.80
- C) 1.00
- D) 1.25

Answer: <https://biology-forums.com/index.php?topic=815438>

Question 664

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$125 million face value due next year. The present value of MI's financial distress costs is closest to:

- A) \$20.0 million
- B) \$6.6 million
- C) \$6.3 million
- D) \$19.0 million

Answer: <https://biology-forums.com/index.php?topic=816065>

Question 665

What is the expected payoff to equity holders under JR's new riskier business strategy?

- A) \$15 million
- B) \$11 million
- C) \$20 million
- D) \$4 million

Answer: <https://biology-forums.com/index.php?topic=816098>

Question 666

The total market capitalization for all four stocks is closest to:

- A) \$479 Billion
- B) \$415 Billion
- C) \$2100 Billion
- D) \$200 Billion

Answer: <https://biology-forums.com/index.php?topic=815673>

Question 667

Suppose that of the 60% of FFL's current overnight photo customers, half would start taking their film to a competitor that offers one hour photo processing if FFL fails to offer the one hour service. The level of incremental sales in this case is closest to:

- A) \$60,000
- B) \$150,000
- C) \$90,000
- D) \$120,000

Answer: <https://biology-forums.com/index.php?topic=815189>

Question 668

A method to repurchase shares is the _____, in which the firm lists different prices at which it is prepared to buy shares, and shareholders in turn indicate how many shares they are willing to sell at each price.

- A) tender offer
- B) Dutch auction share repurchase
- C) targeted repurchase
- D) open market share repurchases

Answer: <https://biology-forums.com/index.php?topic=816147>

Question 669

Which of the following influences a firm's choice of capital structure?

- A) Taxes
- B) Agency costs and benefits of leverage
- C) Signaling and adverse selection
- D) All of the above influence capital structure decisions.

Answer: <https://biology-forums.com/index.php?topic=816139>

Question 670

Chloe Floral Company had segment earnings as follows (in thousands):

	2016	2015
Greenery	\$140	\$125
Blooms	\$240	\$215
Pottery and Vases	\$180	\$155

Which segment had the highest percentage growth?

- A) Greenery
- B) Blooms
- C) Pottery and Vases
- D) Answer cannot be determined from information given.

Answer: <https://biology-forums.com/index.php?topic=814659>

Question 671

Which of the following statements is FALSE?

- A) We begin the capital budgeting process by determining the incremental earnings of a project.
- B) The marginal corporate tax rate is the tax rate the firm will pay on an incremental dollar of pre-tax income.
- C) Investments in plant, property, and equipment are directly listed as expense when calculating earnings.
- D) The opportunity cost of using a resource is the value it could have provided in its best alternative use.

Answer: <https://biology-forums.com/index.php?topic=815174>

Question 672

Suppose that you are considering an investment that will pay you \$4000 per year for the next five years. The appropriate rate of interest is 5%. You want to know the present value of the cash flows from this investment. To solve this problem in Microsoft Excel, you would use which of the following excel formulas?

- A) $=PV(.05,5,4000,0,0)$
- B) $=PV(.05,5,4000,0,1)$
- C) $=PV(5,.05,4000,0)$
- D) $=PV(5,5,4000,0)$

Answer: <https://biology-forums.com/index.php?topic=814872>

Question 673

Which of the following is NOT a step in the WACC valuation method?

- A) Compute the value of the investment, including the tax benefit of leverage, by discounting the free cash flow of the investment using the WACC.
- B) Compute the weighted average cost of capital.
- C) Determine the free cash flow of the investment.
- D) Adjust the WACC for the firm's current debt/equity ratio.

Answer: <https://biology-forums.com/index.php?topic=816243>

Question 674

If the Krusty Krab's opportunity cost of capital is 12%, what decision should the Krusty Krab take regarding the new grill?

- A) Do not install the new grill since NPV is approximately = - \$10,630
- B) Install the new grill since NPV is approximately = + \$10,630
- C) Install the new grill since IRR is approximately = 15%
- D) Don't install the new grill since IRR is less than 12%

Answer: <https://biology-forums.com/index.php?topic=815248>

Question 675

What is the expected payoff to debt holders under JR's new riskier business strategy?

- A) \$20 million
- B) \$4 million
- C) \$15 million
- D) \$11 million

Answer: <https://biology-forums.com/index.php?topic=816097>

Question 676

An analysis that breaks the NPV calculation into its component assumptions and shows how the NPV varies as one of the underlying assumptions is changed is called:

- A) scenario analysis.
- B) IRR analysis.
- C) accounting break-even analysis.
- D) sensitivity analysis.

Answer: <https://biology-forums.com/index.php?topic=815263>

Question 677

The NPV for this project is closest to:

- A) \$176,270
- B) \$123,420
- C) \$450,000
- D) \$179,590

Answer: <https://biology-forums.com/index.php?topic=815092>

Question 678

Wyatt's current stock price is closest to:

- A) \$51.23
- B) \$54.00
- C) \$49.11
- D) \$61.38

Answer: <https://biology-forums.com/index.php?topic=815327>

Question 679

What is the market portfolio?

Answer: <https://biology-forums.com/index.php?topic=815472>

Question 680

In 2000, assuming an average dividend payout ratio of 50%, the effective tax rate for equity holders was closest to:

- A) 69%
- B) 65%
- C) 55%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=816012>

Question 681

Which of the following statements is FALSE?

- A) A portfolio is efficient if it has the highest possible Sharpe ratio; that is it is efficient if it provides the largest increase in expected return possible for a given increase in volatility.
- B) The required return for an investment is equal to a risk premium that is equal to the risk premium of the investor's current portfolio scaled by .
- C) Increasing the investment in investment I will increase the Sharpe ratio of portfolio P if its expected return $E[R_i]$ exceeds the required return r_i , which is given by $r_i = r_f + \beta_i (E[R_p] - r_f)$.
- D) If a security i 's expected return is less than the required return r_i , we should reduce our holding of security i .

Answer: <https://biology-forums.com/index.php?topic=815544>

Question 682

Consider the following timeline:

If the current market rate of interest is 7%, then the future value of this timeline as of year 3 is closest to:

- A) \$1720
- B) \$1500
- C) \$1404
- D) \$1717

Answer: <https://biology-forums.com/index.php?topic=814822>

Question 683

Based upon the average EV/Sales ratio of the comparable firms, if Ideko holds \$6.5 million of cash in excess of its working capital needs, then Ideko's target market value of equity is closest to:

- A) \$165 million
- B) \$157 million
- C) \$193 million
- D) \$191 million

Answer: <https://biology-forums.com/index.php?topic=816340>

Question 684

Luther Corporation's total sales for 2009 were \$610.1, and gross profit was \$109.0. Inventory days for 2009 is closest to:

- A) 27.5
- B) 33.4
- C) 153.7
- D) 10.9

Answer: <https://biology-forums.com/index.php?topic=814698>

Question 685

Assume that Kinston's new machine will be depreciated straight line to a salvage value of \$5,000 at the end of year three. What is the NPV for this project?

Answer: <https://biology-forums.com/index.php?topic=815234>

Question 686

Which of the following statements is FALSE?

- A) Holding cash has the opposite effect of leverage on risk and return.
- B) We use the market value of the firm's net debt when computing its WACC and unlevered beta to measure the cost of capital and market risk of the firm's business assets.
- C) Since the WACC does not change with the use of leverage, the value of the firm's free cash flow evaluated using the WACC does not change, and so the enterprise value of the firm does not depend on its financing choices.
- D) Even if the firm's capital structure is more complex, the WACC is calculated by computing the weighted average cost of only the firm's debt and equity.

Answer: <https://biology-forums.com/index.php?topic=815895>

Question 687

Assume that Rockwood is able to repurchase shares prior to the market becoming aware of the new information regarding Rockwood's true value. After the repurchase, and following the release of the new information regarding the true value of Rockwood, the firm's share price is closest to:

- A) \$30.00
- B) \$31.50
- C) \$28.75
- D) \$30.60

Answer: <https://biology-forums.com/index.php?topic=816227>

Question 688

Dustin's Donuts experienced a decrease in the value of the trademark of a company it acquired two years ago. This reduction in value results in:

- A) an impairment charge.
- B) depreciation expense.
- C) an operating expense.
- D) goodwill.

Answer: <https://biology-forums.com/index.php?topic=814617>

Question 689

If the YTM of these bonds increased to 9%, which bond's price would be most sensitive to this change in YTM?

- A) #1
- B) #2
- C) #3
- D) #4

Answer: <https://biology-forums.com/index.php?topic=815007>

Question 690

A 30 year mortgage loan is a:

- A) long-term liability.
- B) current liability.
- C) current asset.
- D) long-term asset.

Answer: <https://biology-forums.com/index.php?topic=814615>

Question 691

The continuation value for the trucking division in year five is closest to:

- A) 1,000,000
- B) 1,250,000
- C) 1,275,000
- D) 1,375,000

Answer: <https://biology-forums.com/index.php?topic=815254>

Question 692

Assume that you presently have a monthly home mortgage with a stated interest rate of 7% APR. If your income tax rate is 20%, then the after tax EAR for your home mortgage is closest to:

- A) 5.6%
- B) 7.2%
- C) 5.8%
- D) 7.0%

Answer: <https://biology-forums.com/index.php?topic=814950>

Question 693

If the interest rate is 7%, the alternative with the highest NPV is:

- A) Alternative #1 with an NPV of approximately \$350,000
- B) Alternative #2 with an NPV of approximately \$370,561
- C) Alternative #3 with an NPV of approximately \$357,196
- D) Alternative #2 with an NPV of approximately \$380,561

Answer: <https://biology-forums.com/index.php?topic=814737>

Question 694

What is the variance on a portfolio that has \$3000 invested in Duke Energy, \$4000 invested in Microsoft, and \$3000 invested in Wal-Mart stock?
Answer: <https://biology-forums.com/index.php?topic=815515>

Question 695

If the ETF is currently trading for \$1300, what arbitrage opportunity is available? What trades would you make?
Answer: <https://biology-forums.com/index.php?topic=814783>

Question 696

The price (expressed as a percentage of the face value) of a one-year, zero-coupon corporate bond with a AAA rating is closest to:
A) 94.70
B) 95.60
C) 94.16
D) 95.42
Answer: <https://biology-forums.com/index.php?topic=815057>

Question 697

The Debt Capacity for Iota's new project in year 0 is closest to:
A) \$263.25
B) \$87.75
C) \$50.25
D) \$118.00
Answer: <https://biology-forums.com/index.php?topic=816261>

Question 698

Which of the following statements is FALSE?
A) Bonds are a securities sold by governments and corporations to raise money from investors today in exchange for promised future payments.
B) By convention the coupon rate is expressed as an effective annual rate.
C) Bonds typically make two types of payments to their holders.
D) The time remaining until the repayment date is known as the term of the bond.
Answer: <https://biology-forums.com/index.php?topic=814962>

Question 699

Luther's return on assets (ROA) for the year ending December 31, 2009 is closest to:
A) 1.6%
B) 6.7%
C) 2.3%
D) 2.6%
Answer: <https://biology-forums.com/index.php?topic=814673>

Question 700

Omicron's enterprise value is closest to:
A) \$500 million
B) \$900 million
C) \$450 million
D) \$400 million
Answer: <https://biology-forums.com/index.php?topic=816158>

Question 701

Which of the following statements is FALSE?
A) When a firm faces financial distress, creditors can gain by making sufficiently risky investments, even if they have negative NPV.
B) When a firm has leverage, a conflict of interest exists if investment decisions have different consequences for the value of equity and the value of debt.
C) In some circumstances, managers may take actions that benefit shareholders but harm the firm's creditors and lower the total value of the firm.
D) Agency costs are costs that arise when there are conflicts of interest between stakeholders.
Answer: <https://biology-forums.com/index.php?topic=816092>

Question 702

The total amount available to payout to all the investors in Kroger in 2005 is closest to:

- A) \$190 million
- B) \$847 million
- C) \$745 million
- D) \$290 million

Answer: <https://biology-forums.com/index.php?topic=815938>

Question 703

Suppose that you are holding a market portfolio and you have invested \$9000 in Rearden Metal. The amount that you have invested in Nielson Motors is closest to:

- A) \$6000
- B) \$7715
- C) \$9000
- D) \$10,500

Answer: <https://biology-forums.com/index.php?topic=815650>

Question 704

Which of the following statements is FALSE?

- A) The Capital Asset Pricing Model is the most important method for estimating the cost of capital that is used in practice.
- B) Because the risk that determines expected returns is unsystematic risk, which is measured by beta, the cost of capital for an investment is the expected return available on securities with the same beta.
- C) A common assumption is that the project has the same risk as the firm.
- D) To determine a project's cost of capital we need to estimate its beta.

Answer: <https://biology-forums.com/index.php?topic=815465>

Question 705

Assuming that Casa Grande Farms depreciates these tractors using MACRS depreciation method for three-year property starting immediately, then the NPV of buying the tractors is closest to:

- A) 20,785
- B) 36,225
- C) 81,715
- D) 513,235
- E) 560,785

Answer: <https://biology-forums.com/index.php?topic=815253>

Question 706

Which of the following statements is FALSE?

- A) When a bond is trading at a discount, the price drop when a coupon is paid will be larger than the price increase between coupons, so the bond's discount will tend to decline as time passes.
- B) When a bond trades at a price equal to its face value, it is said to trade at par.
- C) As interest rates and bond yield rise, bond prices will fall.
- D) Ultimately, the prices of all bonds approach the bond's face value when the bonds mature and their last coupon is paid.

Answer: <https://biology-forums.com/index.php?topic=814995>

Question 707

Which of the following statements is FALSE?

- A) $FV =$
- B) $PV =$
- C) $FV = C_n \times (1 + r)^n$
- D) Most investment opportunities have multiple cash flows that occur at different points in time.

Answer: <https://biology-forums.com/index.php?topic=814826>

Question 708

Which of the following statements is FALSE?

- A) A serious concern for large corporations is that managers may make large, unprofitable investments.
- B) While overspending on personal perks may be a problem for large firms, these costs are likely to be small relative to the overall value of the firm.
- C) Some financial economists explain a manager's willingness to engage in negative-NPV investments as empire building.
- D) While ownership is often diluted for small, young firms, ownership typically becomes concentrated over time as a firm grows.

Answer: <https://biology-forums.com/index.php?topic=816113>

Question 709

You are opening up a brand new retail strip mall. You presently have more potential retail outlets wanting to locate in your mall than you have space available. What is the most appropriate tool to use if you are trying to determine the optimal allocation of your retail space?

- A) IRR
- B) Payback period
- C) NPV
- D) Profitability index

Answer: <https://biology-forums.com/index.php?topic=815152>

Question 710

If a bond is currently trading at its face (par) value, then it must be the case that:

- A) the bond's yield to maturity is less than its coupon rate.
- B) the bond's yield to maturity is equal to its coupon rate.
- C) the bond's yield to maturity is greater than its coupon rate.
- D) the bond is a zero-coupon bond.

Answer: <https://biology-forums.com/index.php?topic=815004>

Question 711

Assume that capital markets are perfect, you issue \$25 million in new debt, and you issue \$25 million in new equity. Your ownership stake in the firm following these new issues of debt and equity is closest to:

- A) 50%
- B) 55%
- C) 58%
- D) 33%

Answer: <https://biology-forums.com/index.php?topic=816116>

Question 712

What is the expected payoff for Little Cure's ten drugs?

- A) \$500 million
- B) \$100 million
- C) \$1 billion
- D) \$0

Answer: <https://biology-forums.com/index.php?topic=815421>

Question 713

Perrigo's market debt to equity ratio is closest to:

- A) 0.24
- B) 0.50
- C) 0.75
- D) 0.89

Answer: <https://biology-forums.com/index.php?topic=814660>

Question 714

The Sharpe ratio for your portfolio is closest to:

- A) 1.2
- B) 0.6
- C) 1.0
- D) 0.7

Answer: <https://biology-forums.com/index.php?topic=815540>

Question 715

The standard deviation of the overall payoff to Bank B is closest to:

- A) \$751,000
- B) \$2,179,000
- C) \$2,375,000
- D) \$21,794,000

Answer: <https://biology-forums.com/index.php?topic=815419>

Question 716

Suppose that MI has zero-coupon debt with a \$125 million face value due next year. The initial value of MI's debt is closest to:

- A) \$125 million
- B) \$111 million
- C) \$100 million
- D) \$116 million

Answer: <https://biology-forums.com/index.php?topic=816031>

Question 717

The weight on Ball Corporation in your portfolio is:

- A) 50%
- B) 40%
- C) 20%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=815477>

Question 718

The amount of the increase in net working capital for Ideko in 2007 is closest to:

- A) \$4090
- B) \$4685
- C) \$3665
- D) \$5230

Answer: <https://biology-forums.com/index.php?topic=816459>

Question 719

Which pharmaceutical company faces less risk?

Answer: <https://biology-forums.com/index.php?topic=815424>

Question 720

Suppose an investment is equally likely to have a 35% return or a -20% return. The variance on the return for this investment is closest to:

- A) .151
- B) .0378
- C) 0
- D) .075

Answer: <https://biology-forums.com/index.php?topic=815378>

Question 721

Explain why the NPV decision rule might provide Larry with a different decision outcome than the IRR rule when evaluating Larry's three movie deal offer.

Answer: <https://biology-forums.com/index.php?topic=815121>

Question 722

Raceway Products has a market debt-to-equity ratio of .60, a corporate tax rate of 40%, and pays 8% interest on its debt. The interest tax shield on Raceway's debt lowers its WACC by what amount?

Answer: <https://biology-forums.com/index.php?topic=815983>

Question 723

An individual's desire for intense risk-taking experiences is known as:

- A) phenomenon seeking.
- B) herd seeking.
- C) sensation seeking.
- D) rational expectations seeking.

Answer: <https://biology-forums.com/index.php?topic=815760>

Question 724

Consider an equally weighted portfolio that contains 20 stocks. If the average volatility of these stocks is 35% and the average correlation between the stocks is .4, then the volatility of this equally weighted portfolio is closest to:

- A) .17

- B) .41
- C) .14
- D) .37

Answer: <https://biology-forums.com/index.php?topic=815512>

Question 725

Which of the following statements is FALSE?

- A) Many practitioners prefer to use average industry betas rather than individual stock betas.
- B) When estimating beta by using past returns it is best to use the longest time horizon of returns available.
- C) The CAPM predicts that a security's expected return depends on its beta with regard to the market portfolio of all risky investments available to investors.
- D) If we use too short a time horizon when estimating beta, our estimate of beta will be unreliable.

Answer: <https://biology-forums.com/index.php?topic=815740>

Question 726

Assume that capital markets are perfect except for the existence of corporate taxes and that your firm pays 35% of earnings in taxes. If you want to maintain ownership of at least a 50%, then calculate the minimum amount of debt that you must issue to fund the expansion.

Answer: <https://biology-forums.com/index.php?topic=816119>

Question 727

Another oil refiner is offering to trade you 10,150 Bbls of Alaska North Slope (ANS) crude oil for 10,000 Bbls of West Texas Intermediate (WTI) crude oil. Assuming you just purchased 10,000 Bbls of WTI crude at the current market price, the added benefit (cost) to you if you take the trade is closest to:

- A) \$730,600
- B) \$771,400
- C) \$40,800
- D) \$43,308

Answer: <https://biology-forums.com/index.php?topic=814716>

Question 728

Given that Rose issues new debt of \$50 million initially to fund the acquisition, the total value of this acquisition using the APV method is closest to:

- A) \$100 million
- B) \$120 million
- C) \$124 million
- D) \$115 million

Answer: <https://biology-forums.com/index.php?topic=816280>

Question 729

The cost of _____ is highest for firms that are likely to have profitable future growth opportunities requiring large investments.

- A) asset substitution
- B) debt overhang
- C) debt covenants
- D) debt maturity

Answer: <https://biology-forums.com/index.php?topic=816106>

Question 730

Consider a corporate bond with a \$1000 face value, 10% coupon with semiannual coupon payments, 5 years until maturity, currently selling for a cash price of \$1113.80. The next coupon payment will be made in 63 days and there are 182 days in the current coupon period. The clean price for this bond is closest to:

- A) \$1146.50
- B) \$1065.70
- C) \$1113.80
- D) \$1081.10

Answer: <https://biology-forums.com/index.php?topic=815022>

Question 731

The amount of incremental income taxes that the Sisyphian Company will pay in the first year on this new project is closest to:

- A) \$6300
- B) \$5200
- C) \$3500

D) \$2800

Answer: <https://biology-forums.com/index.php?topic=815196>

Question 732

Which of the following statements is FALSE?

- A) When stocks are perfectly positively correlated, the set of portfolios is identified graphically by a straight line between them.
- B) An investor seeking high returns and low volatility should only invest in an efficient portfolio.
- C) When the correlation between securities is less than 1, the volatility of the portfolio is reduced due to diversification.
- D) Efficient portfolios can be easily ranked, because investors will choose from among them those with the highest expected returns.

Answer: <https://biology-forums.com/index.php?topic=815517>

Question 733

Wyatt Oil is contemplating issuing a 20-year bond with semiannual coupons, a coupon rate of 5%, and a face value of \$1000. Wyatt Oil believes it can get a AAA rating from Standard and Poor's for this bond issue. What is the difference in the price the company will receive if the rating is BBB instead of AAA?

- A) \$97.17
- B) \$130.30
- C) \$0
- D) \$26.41

Answer: <https://biology-forums.com/index.php?topic=815061>

Question 734

The value of Iota if they do not use the \$200 million to expand and hold the cash instead is closest to:

- A) \$840 million
- B) \$825 million
- C) \$950 million
- D) \$688 million

Answer: <https://biology-forums.com/index.php?topic=816215>

Question 735

The Market's average historical excess return is closest to:

- A) -2.50%
- B) -3.33%
- C) -4.33%
- D) -5.17%

Answer: <https://biology-forums.com/index.php?topic=815681>

Question 736

When discounting dividends you should use:

- A) the weighted average cost of capital.
- B) the after tax weighted average cost of capital.
- C) the equity cost of capital.
- D) the before tax cost of debt.

Answer: <https://biology-forums.com/index.php?topic=815294>

Question 737

Consider the following equation:

$$Dt = d \times$$

the term d in this equation is:

- A) the firms target debt to value ratio.
- B) the dollar amount of debt outstanding at time t.
- C) the firms target debt to equity ratio.
- D) the investment's debt capacity.

Answer: <https://biology-forums.com/index.php?topic=816249>

Question 738

Which alternative offers you the lowest effective rate of return?

- A) Investment A
- B) Investment B
- C) Investment C

D) Investment D

Answer: <https://biology-forums.com/index.php?topic=814898>

Question 739

You are purchasing a new home and need to borrow \$325,000 from a mortgage lender. The mortgage lender quotes you a rate of 6.5% APR for a 30-year fixed rate mortgage (with payments made at the end of each month). The mortgage lender also tells you that if you are willing to pay 1 point, they can offer you a lower rate of 6.25% APR for a 30-year fixed rate mortgage. One point is equal to 1% of the loan value. So if you take the lower rate and pay the points, you will need to borrow an additional \$3250 to cover points you are paying the lender. Assuming that you do not intend to prepay your mortgage (pay off your mortgage early), are you better off paying the 1 point and borrowing at 6.25% APR or just taking out the loan at 6.5% without any points?

Answer: <https://biology-forums.com/index.php?topic=814920>

Question 740

Assume that to fund the investment Taggart will take on \$150 million in permanent debt with the remainder of the investment funded by a cut in dividends. Assuming Taggart will incur a 2% (after-tax) underwriting fee on the new debt issue, the NPV of Taggart's new rail line is closest to:

- A) \$195 million
- B) \$200 million
- C) \$235 million
- D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816320>

Question 741

If the Krusty Krab's opportunity cost of capital is 12%, then the NPV for upgrading to the new grill is closest to:

- A) -22,875
- B) -15,025
- C) 7130
- D) 10,630

Answer: <https://biology-forums.com/index.php?topic=815246>

Question 742

If Firm A and Firm B are in the same industry and use the same production method, and Firm A's asset turnover is higher than that of Firm B, then all else equal we can conclude:

- A) Firm A is more efficient than Firm B.
- B) Firm A has a lower dollar amount of assets than Firm B.
- C) Firm A has higher sales than Firm B.
- D) Firm A has a lower ROE than Firm B.

Answer: <https://biology-forums.com/index.php?topic=814688>

Question 743

What are your net proceeds if you purchased 2500 shares of XYZ stock on November 11th and then sold them a week later on November 18th?

Answer: <https://biology-forums.com/index.php?topic=814605>

Question 744

The effective dividend tax rate in 1989 is closest to:

- A) 0%
- B) 20%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=816178>

Question 745

Which of the following statements is FALSE?

- A) The IRR of an investment in a zero-coupon bond is the rate of return that investors will earn on their money if they buy a default free bond at its current price and hold it to maturity.
- B) The yield to maturity of a bond is the discount rate that sets the future value of the promised bond payments equal to the current market price of the bond.
- C) Financial professionals also use the term spot interest rates to refer to the default-free zero-coupon yields.
- D) When we calculate a bond's yield to maturity by solving the formula, Price of an n-period bond = $\frac{C}{1+r} + \frac{C}{(1+r)^2} + \dots + \frac{C+F}{(1+r)^n}$, the yield we compute will be a rate per coupon interval.

Answer: <https://biology-forums.com/index.php?topic=814969>

Question 746

Which of the following statements is FALSE?

- A) Firm-specific news is good or bad news about the company itself.
- B) Firms are affected by both systematic and firm-specific risk.
- C) When firms carry both types of risk, only the firm-specific risk will be diversified when we combine many firms' stocks into a portfolio.
- D) The risk premium for a stock is affected by its idiosyncratic risk.

Answer: <https://biology-forums.com/index.php?topic=815429>

Question 747

Based upon the average P/E ratio of the comparable firms, Ideko's target market value of equity is closest to:

- A) \$157 million
- B) \$155 million
- C) \$193 million
- D) \$165 million

Answer: <https://biology-forums.com/index.php?topic=816338>

Question 748

Firms should adjust for execution risk by:

- A) assigning a higher cost of capital to new projects.
- B) ignoring execution risk since it is diversifiable.
- C) capturing this risk in the expected cash flows generated by the project.
- D) noticing missteps in the firm's execution of new projects.

Answer: <https://biology-forums.com/index.php?topic=815729>

Question 749

Which of the following statements is FALSE?

- A) A common approximation is to assume that in the long run, dividends will grow at a constant rate.
- B) The dividend each year is the firm's earnings per share (EPS) multiplied by its dividend payout rate.
- C) There is a tremendous amount of uncertainty associated with any forecast of a firm's future dividends.
- D) During periods of high growth, it is not unusual for firms to pay out 100% of their earnings to shareholders in the form of dividends.

Answer: <https://biology-forums.com/index.php?topic=815274>

Question 750

At an annual interest rate of 7%, the future value of this timeline in year 2 is closest to:

- A) \$3080
- B) \$3525
- C) \$3770
- D) \$4035

Answer: <https://biology-forums.com/index.php?topic=814832>

Question 751

Suppose that Defenestration decides to pay a dividend of only \$2 per share this year and use the remaining \$2 per share to repurchase stock. If Defenestration maintains this dividend and total payout rate, then the rate at which Defenestration's dividends and earnings per share are expected to grow is closest to:

- A) 7%
- B) 13%
- C) 9%
- D) 5%

Answer: <https://biology-forums.com/index.php?topic=815334>

Question 752

Luther's price - earnings ratio (P/E) for the year ending December 31, 2009 is closest to:

- A) 7.9
- B) 10.1
- C) 15.4
- D) 16.0

Answer: <https://biology-forums.com/index.php?topic=814674>

Question 753

Monsters' beta with the market is closest to:

- A) 1.3
- B) 1.0
- C) 0.6
- D) 0.8

Answer: <https://biology-forums.com/index.php?topic=815591>

Question 754

The maximum number of incremental IRRs that could exist for project B over project A is:

- A) 1
- B) 2
- C) 0
- D) 3

Answer: <https://biology-forums.com/index.php?topic=815141>

Question 755

If the risk-free interest rate is 10%, then of the four projects listed, if you could only invest in one project, which one would you select?

- A) Eenie
- B) Meenie
- C) Mighty
- D) Moe

Answer: <https://biology-forums.com/index.php?topic=814751>

Question 756

An incremental IRR of Project B over Project A is closest to:

- A) 12.6%
- B) 23.3%
- C) 1.7%
- D) 17.3%

Answer: <https://biology-forums.com/index.php?topic=815140>

Question 757

Suppose you own 10% of the equity of Without. What is another portfolio you could hold that would provide you with the same exact cash flows?

Answer: <https://biology-forums.com/index.php?topic=815879>

Question 758

Assume that the Wilshire 5000 currently has a dividend yield of 2% and that on average, the dividends of Wilshire 5000 firms have increased by about 7% per year. If the risk-free interest rate is 4%, then your estimate for the future market risk premium is:

- A) 4%
- B) 7%
- C) 8%
- D) 5%

Answer: <https://biology-forums.com/index.php?topic=815748>

Question 759

Which of the following statements is FALSE?

- A) Many practitioners analyze other financial characteristics of a firm, when they forecast betas.
- B) U.S. Treasuries are never subject to interest rate risk unless we select a maturity equal to our investment horizon.
- C) If a firm were to change industries, using its historical beta would be inferior to using the beta of other firms in the new industry.
- D) When using historical returns to forecast future betas, we must be mindful of changes in the environment that might cause the future to differ from the past.

Answer: <https://biology-forums.com/index.php?topic=815743>

Question 760

A project you are considering is expected to provide benefits worth \$225,000 in one year. If the risk-free rate of interest (rf) is 8%, then the value of the benefits of this project today are closest to:

- A) \$190,333

- B) \$208,333
- C) \$225,000
- D) \$243,000

Answer: <https://biology-forums.com/index.php?topic=814728>

Question 761

If the value of security "C" is \$180, then what must be the value of security "A"?

- A) \$80
- B) \$90
- C) \$100
- D) Unable to determine without the risk-free rate.

Answer: <https://biology-forums.com/index.php?topic=814773>

Question 762

What is the purpose of the sensitivity analysis?

Answer: <https://biology-forums.com/index.php?topic=814568>

Question 763

Merck's market capitalization is closest to:

- A) \$38.2 billion
- B) \$77.4 billion
- C) \$89.4 billion
- D) \$115.6 billion

Answer: <https://biology-forums.com/index.php?topic=815659>

Question 764

Which of the following statements is FALSE?

- A) The payback investment rule is based on the notion that an opportunity that pays back its initial investments quickly is a good idea.
- B) An IRR will always exist for an investment opportunity.
- C) A NPV will always exist for an investment opportunity.
- D) In general, there can be as many IRRs as the number of times the project's cash flows change sign over time.

Answer: <https://biology-forums.com/index.php?topic=815124>

Question 765

If the risk-free rate of interest (r_f) is 3.5%, then you should be indifferent between receiving \$1000 in one-year or:

- A) \$965.00 today.
- B) \$966.18 today.
- C) \$1000.00 today.
- D) \$1035.00 today.

Answer: <https://biology-forums.com/index.php?topic=814722>

Question 766

The NPV for Boulderado's snowboard project is closest to:

- A) \$228,900
- B) \$46,900
- C) \$51,600
- D) \$23,800

Answer: <https://biology-forums.com/index.php?topic=815096>

Question 767

Assuming that to fund the investment Taggart will take on \$250 million in permanent debt and ignoring issuance costs, the NPV of Taggart's new rail line is closest to:

- A) \$195 million
- B) \$200 million
- C) \$235 million
- D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816413>

Question 768

How much would you receive if you sold 200 shares of XYZ stock on November 11th?

- A) \$5050
- B) \$5040
- C) \$5186
- D) \$5200

Answer: <https://biology-forums.com/index.php?topic=814597>

Question 769

Which of the following statements is FALSE?

- A) In general, the IRR rule works for a stand-alone project if all of the project's positive cash flows precede its negative cash flows.
- B) There is no easy fix for the IRR rule when there are multiple IRRs.
- C) The payback rule is primarily used because of its simplicity.
- D) No investment rule that ignores the set of alternative investment alternatives can be optimal.

Answer: <https://biology-forums.com/index.php?topic=815125>

Question 770

For the year ending December 31, 2009 Luther's earnings per share are closest to:

- A) \$0.96
- B) \$1.04
- C) \$1.28
- D) \$1.33

Answer: <https://biology-forums.com/index.php?topic=814642>

Question 771

The incremental unlevered net income of the Shepard Industries project in year two is closest to:

- A) \$355
- B) \$415
- C) \$600
- D) \$510

Answer: <https://biology-forums.com/index.php?topic=815222>

Question 772

Luther's EBITDA coverage ratio for the year ending December 31, 2009 is closest to:

- A) 1.64
- B) 1.78
- C) 1.98
- D) 2.19

Answer: <https://biology-forums.com/index.php?topic=814681>

Question 773

The term β is a(n):

- A) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the second factor portfolio.
- B) constant term.
- C) error term that has an expectation of zero and is uncorrelated with either factor.
- D) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the first factor portfolio.

Answer: <https://biology-forums.com/index.php?topic=815811>

Question 774

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$140 million face value due next year. Calculate the value of levered equity, the value of debt, and the total value of MI with leverage.

Answer: <https://biology-forums.com/index.php?topic=816068>

Question 775

Which of the following statements is FALSE?

- A) If we can identify a comparison firm whose assets have the same risk as the project being evaluated, and if the comparison firm is levered, then we can use its equity cost of capital as the cost of capital for the project.
- B) We can calculate the cost of capital of the firm's assets by computing the weighted average of the firm's equity and debt cost of capital, which we refer to as the firm's weighted average cost of capital (WACC).
- C) The portfolio of a firm's equity and debt replicates the returns we would earn if the firm were unlevered.
- D) When evaluating any potential investment project, we must use a discount rate that is appropriate given the risk of the project's free cash flow.

Answer: <https://biology-forums.com/index.php?topic=815893>

Question 776

Which of the following statements is FALSE?

- A) The more cash the firm uses to repurchase shares, the less it has available to pay dividends.
- B) Free cash flow measures the cash generated by the firm after payments to debt or equity holders are considered.
- C) We estimate a firm's current enterprise value by computing the present value of the firm's free cash flow.
- D) We can interpret the enterprise value as the net cost of acquiring the firm's equity, taking its cash and paying off all debts.

Answer: <https://biology-forums.com/index.php?topic=815320>

Question 777

The effective dividend tax rate for a buy and hold individual investor in 1999 is closest to:

- A) 25%
- B) 0%
- C) 20%
- D) 40%

Answer: <https://biology-forums.com/index.php?topic=816194>

Question 778

The interest tax shield provided by Omicron's new project in year 1 is closest to:

- A) \$3.00
- B) \$1.05
- C) \$50.25
- D) \$17.60

Answer: <https://biology-forums.com/index.php?topic=816276>

Question 779

Using the available tax information for 2002, calculate the effective dividend tax rate for a:

- (1) one-year individual investor
- (2) buy and hold individual investor
- (3) pension fund

Answer: <https://biology-forums.com/index.php?topic=816197>

Question 780

Zoe Dental Implements has gross property, plant and equipment totaling \$1.4 million, depreciation expense this year of \$200,000, and accumulated depreciation of \$750,000. What is the book value of Zoe's property, plant and equipment?

- A) \$1.4 million
- B) \$1.2 million
- C) \$550,000
- D) \$650,000

Answer: <https://biology-forums.com/index.php?topic=814623>

Question 781

Which of the following is (are) deducted from EBIT to determine net income?

- A) Earnings per share
- B) Interest expense
- C) Corporate taxes
- D) Both B and C

Answer: <https://biology-forums.com/index.php?topic=814645>

Question 782

Which of the following statements is FALSE?

- A) As a general rule, the WACC method is the easiest to use when the firm will maintain a fixed debt-to-value ratio over the life of the investment.
- B) The FTE method is typically used only in complicated settings for which the values of other securities in the firm's capital structure or the interest tax shield are themselves difficult to determine.
- C) For alternative leverage policies, the FTE method is usually the most straightforward approach.
- D) When used consistently, the WACC, APV, and FTE methods produce the same valuation for the investment.

Answer: <https://biology-forums.com/index.php?topic=816311>

Question 783

The firm will pay the dividend to all shareholders who are registered owners on a specific date, set by the board, called the:

- A) declaration date.
- B) record date.
- C) distribution date.
- D) ex-dividend date.

Answer: <https://biology-forums.com/index.php?topic=816142>

Question 784

Which of the following statements is FALSE?

- A) In general, the gain to investors from the tax deductibility of interest payments is referred to as the interest tax shield.
- B) The interest tax shield is the additional amount that a firm would have paid in taxes if it did not have leverage.
- C) Because Corporations pay taxes on their profits after interest payments are deducted, interest expenses reduce the amount of corporate tax firms must pay.
- D) As Modigliani and Miller made clear in their original work, capital structure matters in perfect capital markets. Thus, if capital structure does not matter, then it must stem from a market imperfection.

Answer: <https://biology-forums.com/index.php?topic=815933>

Question 785

Which of the following statements regarding annuities is FALSE?

- A) PV of an annuity = $C \times$
- B) The difference between an annuity and a perpetuity is that a perpetuity ends after some fixed number of payments.
- C) An annuity is a stream of N equal cash flows paid at regular intervals.
- D) Most car loans, mortgages, and some bonds are annuities.

Answer: <https://biology-forums.com/index.php?topic=814841>

Question 786

A corporate bond which receives a BBB rating from Standard and Poor's is considered:

- A) a junk bond.
- B) an investment grade bond.
- C) a defaulted bond.
- D) a high-yield bond.

Answer: <https://biology-forums.com/index.php?topic=815044>

Question 787

Which of the following statements is FALSE?

- A) In the real world, specific projects should differ only slightly from the average investment made by the firm.
- B) We can estimate r_U for a new project by looking at single-division firms that have similar business risks.
- C) The project's equity cost of capital depends on its unlevered cost of capital, r_U , and the debt-equity ratio of the incremental financing that will be put in place to support the project.
- D) Projects may vary in the amount of leverage they will support - for example, acquisitions of real estate or capital equipment are often highly levered, whereas investments in intellectual property are not.

Answer: <https://biology-forums.com/index.php?topic=816388>

Question 788

Rose Industries has a \$20 million loan due at the end of the year and its assets will have a market value of only \$15 million when the loan comes due. Currently Rose has \$2 million in cash. Rose is considering two possible alternative uses for this cash. One possibility is to pay the \$2 million out to shareholders in the form of a special dividend. The second possibility is to invest the \$2 million into a project that offers a \$4 million NPV. What are the payoffs to the debt and equity holders under each of the two alternatives? Which alternative would equity holders prefer? Which alternative would debt holders prefer? What is the economic term that describes this situation?

Answer: <https://biology-forums.com/index.php?topic=816111>

Question 789

Which of the following statements is FALSE?

- A) In perfect capital markets, buying and selling securities is a zero-NPV transaction, so it should not affect firm value.
- B) Making positive-NPV investments will create value for the firm's investors, whereas saving the cash or paying it out will not.
- C) In perfect capital markets, if a firm invests excess cash flows in financial securities, the firm's choice of payout versus retention is irrelevant and does not affect the initial share price.
- D) After adjusting for investor taxes, there remains a substantial tax advantage for the firm to retain excess cash.

Answer: <https://biology-forums.com/index.php?topic=816202>

Question 790

Describe the key steps in the flow to equity method for valuing a levered investment.

Answer: <https://biology-forums.com/index.php?topic=816290>

Question 791

Consider an investment that pays \$1000 certain at the end of each of the next four years. If the investment costs \$3500 and has an NPV of \$74.26, then the four year risk-free interest rate is closest to:

- A) 4.50%
- B) 4.58%
- C) 4.55%
- D) 4.53%

Answer: <https://biology-forums.com/index.php?topic=814940>

Question 792

Assuming the appropriate YTM on the Sisyphian bond is 9%, then this bond will trade at

- A) a premium.
- B) a discount.
- C) par.
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814983>

Question 793

The volatility of a portfolio that is equally invested in Duke Energy and Microsoft is closest to:

- A) 8%
- B) 9%
- C) 11%
- D) 6%

Answer: <https://biology-forums.com/index.php?topic=815524>

Question 794

Assume that MM's perfect capital market conditions are met and that you can borrow and lend at the same 5% rate as With. You have \$5000 of your own money to invest and you plan on buying Without stock. Using homemade leverage you borrow enough in your margin account so that the payoff of your margined purchase of Without stock will be the same as a \$5000 investment in with stock. The number of shares of Without stock you purchased is closest to:

- A) 425
- B) 1650
- C) 2000
- D) 825

Answer: <https://biology-forums.com/index.php?topic=815868>

Question 795

The incremental cash flow that the Krusty Krab will incur today (Year 0) if they elect to upgrade to the new grill is closest to:

- A) -80,000
- B) -50,000
- C) -46,500
- D) +30,000

Answer: <https://biology-forums.com/index.php?topic=815243>

Question 796

Assume that you have \$100,000 to invest and you are interested in creating a value-weighted portfolio of these four stocks. The number of shares of Wal-Mart that you would hold in your portfolio is closest to:

- A) 710
- B) 1390
- C) 1000
- D) 870

Answer: <https://biology-forums.com/index.php?topic=815675>

Question 797

Which of the following statements regarding arbitrage is the most correct?

- A) Any situation in which it is possible to make a profit without taking any risk is known as an arbitrage opportunity.
- B) Any situation in which it is possible to make a profit without making any investment is known as an arbitrage opportunity.
- C) We call a competitive market in which there are no arbitrage opportunities an arbitrage market.
- D) The practice of buying and selling equivalent goods in different markets to take advantage of a price difference is known as arbitrage.

Answer: <https://biology-forums.com/index.php?topic=814756>

Question 798

One of the IRRs for Rearden's mining operation is closest to:

- A) 0%
- B) 10.6%
- C) 12.4%
- D) 72.0%

Answer: <https://biology-forums.com/index.php?topic=815103>

Question 799

Which of the following is an example of an intangible asset?

- A) Brand names and trademarks
- B) Patents
- C) Customer relationships
- D) All of the above are intangible assets.

Answer: <https://biology-forums.com/index.php?topic=814618>

Question 800

In 2006, Luther Incorporated paid a special dividend of \$5 per share for the 100 million shares outstanding. If Luther has instead retained that cash permanently and invested it into treasury bills earning 5%, then the present value of the additional taxes paid by Luther would be closest to:

- A) \$35 million
- B) \$290 million
- C) \$175 million
- D) \$585 million

Answer: <https://biology-forums.com/index.php?topic=816210>

Question 801

If ECE's stock is currently trading at \$24.00 and ECE has 25 million shares outstanding, then ECE's market-to-book ratio is closest to:

- A) 0.24
- B) 4
- C) 6
- D) 30

Answer: <https://biology-forums.com/index.php?topic=814625>

Question 802

Assuming that your capital is constrained, so that you only have \$600,000 available to invest in projects, which projects should you invest in and in what order?

- A) CBFH
- B) CBGF
- C) BCFG
- D) CBFG

Answer: <https://biology-forums.com/index.php?topic=815160>

Question 803

Which of the following statements is FALSE?

- A) We can use the law of one price to compute the price of a coupon bond from the prices of zero-coupon bonds.
- B) The plot of the yields of coupon bonds of different maturities is called the coupon-paying yield curve.
- C) It is possible to replicate the cash flows of a coupon bond using zero-coupon bonds.
- D) Because the coupon bond provides cash flows at different points in time, the yield to maturity of a coupon bond is the simple average of the yields of the zero-coupon bonds of equal and shorter maturities.

Answer: <https://biology-forums.com/index.php?topic=815026>

Question 804

When choosing between projects, an alternative to comparing their IRRs is:

- A) to compute the incremental IRR, which tells us the discount rate at which it becomes profitable to switch from one project to the other.
- B) to compute the incremental payback period, which tells us the number of years during which it becomes profitable to switch from one project to the other.
- C) to compute the incremental NPV, which tells us the discount rate at which it becomes profitable to switch from one project to the other.
- D) There is no alternative selection criterion to comparing IRRs.

Answer: <https://biology-forums.com/index.php?topic=815144>

Question 805

The lowest effective rate of return you could earn on any of these investments is closest to:

- A) 6.150%
- B) 6.250%
- C) 6.289%
- D) 6.300%

Answer: <https://biology-forums.com/index.php?topic=814900>

Question 806

If the YTM of these bonds decreases to 7%, which bond's price would be most sensitive to this change in YTM?

- A) #1
- B) #2
- C) #3
- D) #4
- E) #3 and #4

Answer: <https://biology-forums.com/index.php?topic=815008>

Question 807

Wyatt Oil has a net profit margin of 4.0%, a total asset turnover of 2.2, total assets of \$525 million, and a book value of equity of \$220 million. Wyatt Oil's current return-on-assets (ROA) is closest to:

- A) 8.8%
- B) 9.5%
- C) 21.0%
- D) 22.8%

Answer: <https://biology-forums.com/index.php?topic=814682>

Question 808

The incremental cash flow that Galt Motors will incur in year 4 if they elect to manufacture armatures in house is closest to:

- A) 25,000
- B) 350,000
- C) 375,000
- D) 1,250,000

Answer: <https://biology-forums.com/index.php?topic=815237>

Question 809

The free cash flow to equity in 2008 is closest to:

- A) -5005
- B) -1755
- C) 5575
- D) 9995

Answer: <https://biology-forums.com/index.php?topic=816449>

Question 810

One factor that can affect the market risk of a project is its degree of operating leverage, which is:

- A) the relative proportion of operating assets versus non-operating assets.
- B) the relative proportion of operating assets versus equity.
- C) the relative proportion of operating expenses versus non-operating expenses.
- D) the relative proportion of fixed versus variable costs.

Answer: <https://biology-forums.com/index.php?topic=815730>

Question 811

Which of the following statements is FALSE?

- A) Investors pay less for bonds with credit risk than they would for otherwise identical default-free bonds.
- B) Credit spreads fluctuate as perceptions regarding the probability of default change.
- C) Credit spreads are high for bonds with high ratings.
- D) We refer to the difference between the yields of the corporate bonds and the Treasury yields as the default spread or credit spread.

Answer: <https://biology-forums.com/index.php?topic=815049>

Question 812

Assume that the YTM increases by 1% for each of the four bonds listed. Rank the bonds based upon the sensitivity of their prices from least to most sensitive.

Answer: <https://biology-forums.com/index.php?topic=815024>

Question 813

In which years were dividends NOT tax disadvantaged?

- A) 1987 - 2002
- B) 1987, 1993 - 2002
- C) 1987, 1991 - 2002
- D) 1988 - 1990, 2003 - 2009

Answer: <https://biology-forums.com/index.php?topic=816172>

Question 814

If in 2009 Luther has 10.2 million shares outstanding and these shares are trading at \$16 per share, then using the market value of equity, the debt to equity ratio for Luther in 2009 is closest to:

- A) 1.47
- B) 1.78
- C) 2.31
- D) 4.07

Answer: <https://biology-forums.com/index.php?topic=814663>

Question 815

The IRR of Palin's book deal is closest to:

- A) -27.25%
- B) -37.50%
- C) 27.25%
- D) 37.50%

Answer: <https://biology-forums.com/index.php?topic=815088>

Question 816

Assuming Luther issues a 5:2 stock split, then Luther's new share price is closest to:

- A) \$32.00
- B) \$16.00
- C) \$24.00
- D) \$30.00

Answer: <https://biology-forums.com/index.php?topic=816235>

Question 817

The present value of the lease payments for the delivery truck is closest to:

- A) \$206,900
- B) \$207,050
- C) \$207,680
- D) \$198,420

Answer: <https://biology-forums.com/index.php?topic=814909>

Question 818

Suppose that security C had a risk premium of 30%, describe what arbitrage opportunity exists and how you would exploit it.

Answer: <https://biology-forums.com/index.php?topic=814790>

Question 819

What is the shape of the yield curve and what expectations are investors likely to have about future interest rates?

- A) Inverted; Higher
- B) Normal; Higher
- C) Inverted; Lower
- D) Normal; Lower

Answer: <https://biology-forums.com/index.php?topic=814938>

Question 820

Assume that you are an investor with the disposition effect and you bought each of these stocks in January. Suppose that it is currently the end of March, which stocks are you most inclined to sell?

1. Taggart Transcontinental
2. Rearden Metal
3. Wyatt Oil
4. Nielson Motors

- A) 1 only
- B) 1 and 3 only
- C) 2 only
- D) 2 and 4 only

Answer: <https://biology-forums.com/index.php?topic=815762>

Question 821

The expected return for Nielson Motors stock without leverage is closest to:

- A) -25.0%
- B) -17.5%
- C) -12.5%
- D) 12.5%

Answer: <https://biology-forums.com/index.php?topic=815828>

Question 822

Based upon the price earnings multiple, the value of a share of Texas Trucking is closest to:

- A) \$49.30
- B) \$43.10
- C) \$24.15
- D) \$27.60

Answer: <https://biology-forums.com/index.php?topic=815351>

Question 823

Following the borrowing of \$12 million and subsequent share repurchase, the number of shares that RC will have outstanding is closest to:

- A) 4.0 million
- B) 6.0 million
- C) 4.9 million
- D) 4.5 million

Answer: <https://biology-forums.com/index.php?topic=815919>

Question 824

Francisco d'Anconia is considering an investment opportunity that costs \$10,000 today and will pay \$11,500 in two years. The IRR of this opportunity is closest to:

- A) 7.25%
- B) 7.50%
- C) 10.00%
- D) 15.00%

Answer: <https://biology-forums.com/index.php?topic=814873>

Question 825

Which of the following statements is FALSE?

- A) The IRR investment rule will identify the correct decision in many, but not all, situations.
- B) By setting the NPV equal to zero and solving for r , we find the IRR.
- C) If you are unsure of your cost of capital estimate, it is important to determine how sensitive your analysis is to errors in this estimate.

D) The simplest investment rule is the NPV investment rule.

Answer: <https://biology-forums.com/index.php?topic=815104>

Question 826

Which of the following statements is FALSE?

- A) The tradeoff theory weighs the costs of debt that result from shielding cash flows from taxes against the benefits from the effects of financial distress associated with leverage.
- B) Leverage has costs as well as benefits.
- C) According to the tradeoff theory, the total value of a levered firm equals the value of the firm without leverage plus the present value of the tax savings from debt, less the present value of financial distress costs.
- D) Firms have an incentive to increase leverage to exploit the tax benefits of debt. But with too much debt, they are more likely to risk default and incur financial distress costs.

Answer: <https://biology-forums.com/index.php?topic=816072>

Question 827

Which of the following statements is FALSE?

- A) The firm's weighted average cost of capital (WACC) denoted r_{wacc} is the cost of capital that reflects the risk of the overall business, which is the combined risk of the firm's equity and debt.
- B) Intuitively, the difference between the discounted free cash flow model and the dividend-discount model is that in the dividend-discount model the firm's cash and debt are included indirectly through the effect of interest income and expenses on earnings in the dividend-discount model.
- C) We interpret r_{wacc} as the expected return the firm must pay to investors to compensate them for the risk of holding the firm's debt and equity together.
- D) When using the discounted free cash flow model we should use the firm's equity cost of capital.

Answer: <https://biology-forums.com/index.php?topic=815321>

Question 828

In practice which market index is most widely used as a proxy for the market portfolio in the CAPM?

- A) Dow Jones Industrial Average
- B) Wilshire 5000
- C) S&P 500
- D) U.S. Treasury Bill

Answer: <https://biology-forums.com/index.php?topic=815670>

Question 829

Which of the following is consistent with the CAPM and efficient capital markets?

- A) A security with a beta of 1 has a return last year of 8% when the market has a return of 12%.
- B) Small stocks with a beta of 1.5 tend to have higher returns on average than large stocks with a beta of 1.5.
- C) A security with only diversifiable risk has an expected return that exceeds the risk-free interest rate.
- D) A security with only systematic risk has an expected return that exceeds the risk-free interest rate.

Answer: <https://biology-forums.com/index.php?topic=815470>

Question 830

A McDonald's Big Mac value meal consists of a Big Mac Sandwich, Large Coke, and a Large Fry. Assume that there is a competitive market for McDonald's food items and that McDonald's sells the Big Mac value meal for \$4.79. Does an arbitrage opportunity exist and if so how would you exploit it and how much would you make on one extra value meal?

- A) Yes, buy extra value meal and then sell Big Mac, Coke, and Fries to make arbitrage profit of \$0.68.
- B) No, no arbitrage opportunity exists.
- C) Yes, buy Big Mac, Coke, and Fries then sell value meal to make arbitrage profit of \$1.09.
- D) Yes, buy Big Mac, Coke, and Fries then sell value meal to make arbitrage profit of \$0.68.

Answer: <https://biology-forums.com/index.php?topic=814759>

Question 831

The volatility on the market portfolio (which is a 50-50 combination of the value and growth portfolios) is closest to:

- A) 13.5%
- B) 15.2%
- C) 17.1%
- D) 19.0%

Answer: <https://biology-forums.com/index.php?topic=815559>

Question 832

In addition to the balance sheet, income statement, and the statement of cash flows, a firm's complete financial statements will include all of the following EXCEPT:

- A) Management discussion and analysis.
- B) Notes to the financial statements.
- C) Securities and Exchange Commission's (SEC) commentary.
- D) Statement of stockholders' equity.

Answer: <https://biology-forums.com/index.php?topic=814656>

Question 833

Suppose that you want to use the 10 year historical average return on the Market to forecast the expected future return on the Market. Calculate the 95% confidence interval for your estimate of the expected return.

Answer: <https://biology-forums.com/index.php?topic=815402>

Question 834

Assume that the S&P 500 currently has a dividend yield of 3% and that on average, the dividends of S&P 500 firms have increased by about 5% per year. If the risk-free interest rate is 4%, then your estimate for the future market risk premium is:

- A) 7%
- B) 8%
- C) 6%
- D) 4%

Answer: <https://biology-forums.com/index.php?topic=815747>

Question 835

If Wyatt Oil distributes the \$70 million as a dividend, then its stock price after the dividend will be closest to:

- A) \$12.50
- B) \$14.00
- C) \$17.50
- D) \$26.50

Answer: <https://biology-forums.com/index.php?topic=816152>

Question 836

If you want to value a firm that has consistent earnings growth, but varies how it pays out these earnings to shareholders between dividends and repurchases, the simplest model for you to use is the:

- A) enterprise value model.
- B) dividend discount model.
- C) total payout model.
- D) discounted free cash flow model.

Answer: <https://biology-forums.com/index.php?topic=815316>

Question 837

The percentage change in the price of the bond "C" if its yield to maturity increases from 9% to 10% is closest to:

- A) -17%
- B) -6%
- C) -4%
- D) 4%

Answer: <https://biology-forums.com/index.php?topic=815016>

Question 838

The expected return on security with a beta of 1 is closest to:

- A) -4.0%
- B) 3.2%
- C) 4.0%
- D) 8.0%

Answer: <https://biology-forums.com/index.php?topic=815447>

Question 839

The standard deviation of Little Cure's average net income for their ten new drugs is closest to:

- A) \$50 million
- B) \$25 million
- C) \$16 million

D) \$500 million

Answer: <https://biology-forums.com/index.php?topic=815423>

Question 840

Do expected returns for individual stocks increase proportionately with volatility?

Answer: <https://biology-forums.com/index.php?topic=815414>

Question 841

The effective annual rate on your firm's borrowings is closest to:

- A) 6.00%
- B) 6.14%
- C) 6.25%
- D) 6.30%

Answer: <https://biology-forums.com/index.php?topic=814901>

Question 842

Suppose you are a shareholder in d'Anconia Copper holding 500 shares, and you disagree with the decision to lever the firm. You can undo the effect of this decision by:

- A) borrowing \$2000 and buying 100 shares of stock.
- B) selling 100 shares of stock and lending \$2000.
- C) borrowing \$1200 and buying 60 shares of stock.
- D) selling 60 shares of stock and lending \$1200.

Answer: <https://biology-forums.com/index.php?topic=815859>

Question 843

If Wyatt Oil distributes the \$70 million as a share repurchase, then its stock price after the share repurchase will be closest to:

- A) \$11.00
- B) \$12.50
- C) \$14.00
- D) \$17.50

Answer: <https://biology-forums.com/index.php?topic=816153>

Question 844

The expected return on the precious metals fund is closest to:

- A) -3%
- B) 4%
- C) 1%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=815549>

Question 845

The firm's asset turnover measures:

- A) the value of assets held per dollar of shareholder equity.
- B) the return the firm has earned on its past investments.
- C) the firm's ability to sell a product for more than the cost of producing it.
- D) how efficiently the firm is utilizing its assets to generate sales.

Answer: <https://biology-forums.com/index.php?topic=814687>

Question 846

You have an \$8000 balance on your credit card, which charges 12% interest annually (1% per month). If you can afford to pay \$100 per month, how many months will it take to pay the credit card in full?

- A) 170 months
- B) 14 months
- C) 162 months
- D) You will never get the card paid off at that rate.

Answer: <https://biology-forums.com/index.php?topic=814890>

Question 847

The Sisyphian Company's common stock is currently trading for \$25.00 per share. The stock is expected to pay a \$2.50 dividend at the end of the

year and the Sisyphian Company's equity cost of capital is 14%. If the dividend payout rate is expected to remain constant, then the expected growth rate in the Sisyphian Company's earnings is closest to:

- A) 8%
- B) 6%
- C) 4%
- D) 2%

Answer: <https://biology-forums.com/index.php?topic=815285>

Question 848

How much are each of the semiannual coupon payments? Assuming the appropriate YTM on the Sisyphian bond is 8.8%, then at what price should this bond trade for?

Answer: <https://biology-forums.com/index.php?topic=814990>

Question 849

Perrigo's book value of equity is closest to:

- A) \$952.16 million
- B) \$3580.14 million
- C) \$4168.06 million
- D) \$4425.15 million

Answer: <https://biology-forums.com/index.php?topic=814627>

Question 850

The third party who checks annual financial statements to ensure that they are prepared according to GAAP and verifies that the information reported is reliable is the:

- A) NYSE Enforcement Board.
- B) Accounting Standards Board.
- C) Securities and Exchange Commission (SEC).
- D) auditor.

Answer: <https://biology-forums.com/index.php?topic=814609>

Question 851

Which of the following statements is FALSE?

- A) Equity holders expect to receive dividends and the firm is legally obligated to pay them.
- B) A firm that fails to make the required interest or principal payments on the debt is in default.
- C) In the extreme case, the debt holders take legal ownership of the firm's assets through a process called bankruptcy.
- D) After a firm defaults, debt holders are given certain rights to the assets of the firm.

Answer: <https://biology-forums.com/index.php?topic=816027>

Question 852

Consider two securities, A & B. Suppose a third security, C, has the same cash flows as A and B combined. Given this information about securities A, B, & C, which of the following statements is INCORRECT?

- A) If the total price of A and B is cheaper than the price of C, then we could make a profit selling A and B and buying C.
- B) $\text{Price}(C) = \text{Price}(A) + \text{Price}(B)$.
- C) Because security C is equivalent to the portfolio of A and B, by the law of one price they must have the same price.
- D) The relationship known as value additivity says that the value of a portfolio is equal to the sum of the values of its parts.

Answer: <https://biology-forums.com/index.php?topic=814764>

Question 853

How much would you have to pay to purchase 100 shares of XYZ stock on November 18th?

- A) \$2520
- B) \$2525
- C) \$2593
- D) \$2600

Answer: <https://biology-forums.com/index.php?topic=814596>

Question 854

Taggart Transcontinental has a value of \$500 million if it continues to operate, but has outstanding debt of \$600 million. If Taggart declares bankruptcy, bankruptcy costs will equal \$50 million, and the remaining \$450 million will go to creditors. Instead of declaring bankruptcy, Taggart proposes to exchange the firm's debt for a fraction of its equity in a workout. The minimum fraction of the firm's equity that Taggart would need to offer to its creditors for the workout to be successful is closest to:

- A) 50%
- B) 75%
- C) 83%
- D) 90%

Answer: <https://biology-forums.com/index.php?topic=816039>

Question 855

If your new strip mall will have 15,000 square feet of retail space available to be leased, to which businesses should you lease and why?

Answer: <https://biology-forums.com/index.php?topic=815164>

Question 856

Using just the return data for 2009, your estimate of Wyatt Oil's Beta is closest to:

- A) 0.84
- B) 0.87
- C) 1.00
- D) 1.16

Answer: <https://biology-forums.com/index.php?topic=815686>

Question 857

Which of the following statements is FALSE?

- A) As long as investors can borrow or lend at the same interest rate as the firm, homemade leverage is a perfect substitute for the use of leverage by the firm.
- B) When investors use leverage in their own portfolios to adjust the leverage choice made by the firm, we say that they are using homemade leverage.
- C) The value of the firm is determined by the present value of the cash flows from its current and future investments.
- D) The investor can re-create the payoffs of unlevered equity by borrowing and using the proceeds to purchase the equity of the firm.

Answer: <https://biology-forums.com/index.php?topic=815863>

Question 858

The variance on a portfolio that is made up of equal investments in Stock X and Stock Z is closest to:

- A) 0.62
- B) 0.05
- C) 0.12
- D) 0.06

Answer: <https://biology-forums.com/index.php?topic=815499>

Question 859

If the risk-free interest rate is 10%, then the NPV for Moe is closest to:

- A) -3.64
- B) 2.73
- C) 3.18
- D) 3.64

Answer: <https://biology-forums.com/index.php?topic=814750>

Question 860

Assume that Omicron uses the entire \$50 million to repurchase shares. The number of shares that Omicron will have outstanding following the repurchase is closest to:

- A) 8.8 million
- B) 1.2 million
- C) 9.0 million
- D) 8.9 million

Answer: <https://biology-forums.com/index.php?topic=816165>

Question 861

Which of the following statements is FALSE?

- A) Rather than set debt according to a target debt-equity ratio or interest coverage level, a firm may adjust its debt according to a fixed schedule that is known in advance.
- B) When we relax the assumption of a constant debt-equity ratio, the equity cost of capital and WACC for a project will change over time as the debt-equity ratio changes.
- C) When we relax the assumption of a constant debt-equity ratio, the APV and FTE methods are difficult to implement.
- D) If a firm is using leverage to shield income from corporate taxes, then it will adjust its debt level so that its interest expenses grow with its earnings.

Answer: <https://biology-forums.com/index.php?topic=816404>

Question 862

Taggart Transcontinental has a divided yield of 2.5%. Taggart's equity cost of capital is 10%, and its dividends are expected to grow at a constant rate. Based on this information, Taggart's constant growth rate in dividends is closest to:

- A) 2.5%
- B) 5.0%
- C) 10.0%
- D) 7.5%

Answer: <https://biology-forums.com/index.php?topic=815310>

Question 863

The total amount of interest that Dagny will pay during the first three months of her mortgage is closest to:

- A) \$1345
- B) \$5380
- C) \$5395
- D) \$6740

Answer: <https://biology-forums.com/index.php?topic=814926>

Question 864

Which of the following statements regarding arbitrage and security prices is INCORRECT?

- A) We call the price of a security in a normal market the no-arbitrage price for the security.
- B) In financial markets it is possible to sell a security you do not own by doing a short sale.
- C) When a bond is underpriced, the arbitrage strategy involves selling the bond and investing some of the proceeds.
- D) The general formula for the no-arbitrage price of a security is $\text{Price}(\text{security}) = \text{PV}(\text{All cash flows paid by the security})$.

Answer: <https://biology-forums.com/index.php?topic=814763>

Question 865

If the appropriate interest rate is 10%, then the NPV of this opportunity is closest to:

- A) (\$88,000)
- B) \$88,000
- C) \$300,000
- D) \$1,300,000

Answer: <https://biology-forums.com/index.php?topic=814835>

Question 866

The overall asset beta for Wyatt Oil is closest to:

- A) 0.95
- B) 1.05
- C) 1.15
- D) 1.25

Answer: <https://biology-forums.com/index.php?topic=815727>

Question 867

Which of the following statements regarding the timeline is TRUE?

- A) Date 1 is the beginning of the first year.
- B) Date 2 is the beginning of the second year.
- C) Date 1 is the beginning of the second year.
- D) Date 0 is the end of the first year.

Answer: <https://biology-forums.com/index.php?topic=814804>

Question 868

If the discount rate for project B is 15%, then what is the NPV for project B?

Answer: <https://biology-forums.com/index.php?topic=815147>

Question 869

The excess return is the difference between the average return on a security and the average return for:

- A) Treasury Bonds.
- B) a portfolio of securities with similar risk.

C) a broad based market portfolio like the S&P 500 index.

D) Treasury Bills.

Answer: <https://biology-forums.com/index.php?topic=815406>

Question 870

The IRR of manufacturing the armatures in house is closest to:

A) 48%

B) 49%

C) 50%

D) 53%

Answer: <https://biology-forums.com/index.php?topic=815241>

Question 871

Nielson's EPS if they change their capital structure is closest to:

A) \$2.00

B) \$2.30

C) \$2.50

D) \$2.90

Answer: <https://biology-forums.com/index.php?topic=815915>

Question 872

The free cash flow from the Shepard Industries project in year two is closest to:

A) \$345

B) \$455

C) \$275

D) -\$5

Answer: <https://biology-forums.com/index.php?topic=815226>

Question 873

Which of the following statements is correct?

A) You should accept project A since its IRR > 15%.

B) You should reject project B since its NPV > 0.

C) You should accept project A since its NPV < 0.

D) You should accept project B since its IRR < 15%.

Answer: <https://biology-forums.com/index.php?topic=815109>

Question 874

Which of the following statements is FALSE?

A) The most important insight regarding capital structure goes back to Modigliani and Miller: With perfect capital markets, a firm's security choice alters the risk of the firm's equity, but it does not change its value or the amount it can raise from outside investors.

B) When agency costs are significant, short-term debt may be the most attractive form of external financing.

C) Too much debt can motivate managers and equity holders to take excessive risks or over-invest in a firm.

D) Of all the different possible imperfections that drive capital structure, the most clear-cut, and possibly the most significant, is taxes.

Answer: <https://biology-forums.com/index.php?topic=816138>

Question 875

The number of shares that Galt must issue is closest to:

A) 15 million

B) 25 million

C) 30 million

D) 40 million

Answer: <https://biology-forums.com/index.php?topic=815850>

Question 876

Which of the following statements is FALSE?

A) Because the enterprise value represents the entire value of the firm before the firm pays its debt, to form an appropriate multiple, we divide it by a measure of earnings or cash flows after interest payments are made.

B) We can compute a firm's P/E ratio by using either trailing earnings or forward earnings with the resulting ratio called the trailing P/E or forward P/E.

C) It is common practice to use valuation multiples based on the firm's enterprise value.

D) Using a valuation multiple based on comparables is best viewed as a "shortcut" to the discounted cash flow method of valuation.

Answer: <https://biology-forums.com/index.php?topic=815341>

Question 877

The NPV for Iota's new project is closest to:

- A) \$25.25
- B) \$13.25
- C) \$9.00
- D) \$18.50

Answer: <https://biology-forums.com/index.php?topic=816260>

Question 878

When using the internal rate of return (IRR) investment rule, we compare:

- A) the average return on the investment opportunity to returns on all other investment opportunities in the market.
- B) the average return on the investment opportunity to returns on other alternatives in the market with equivalent risk and maturity.
- C) the NPV of the investment opportunity to the average return on the investment opportunity.
- D) the average return on the investment opportunity to the risk-free rate of return.

Answer: <https://biology-forums.com/index.php?topic=815119>

Question 879

Assuming that Defenestration's dividend payout rate and expected growth rate remain constant, and Defenestration does not issue or repurchase shares, then Defenestration's stock price is closest to:

- A) \$50.00
- B) \$32.30
- C) \$22.25
- D) \$30.75

Answer: <https://biology-forums.com/index.php?topic=815332>

Question 880

The internal rate of return (IRR) for project A is closest to:

- A) 7.7%
- B) 21.6%
- C) 23.3%
- D) 42.9%

Answer: <https://biology-forums.com/index.php?topic=815107>

Question 881

Suppose that you want to use the 10 year historical average return on the Index to forecast the expected future return on the Index. The 95% confidence interval for your estimate of the expected return is closest to:

- A) -9.6% to 27.3%
- B) 6.8% to 10.7%
- C) -3.5% to 21.1%
- D) 4.9% to 12.7%

Answer: <https://biology-forums.com/index.php?topic=815397>

Question 882

Which of the following statements is FALSE?

- A) The APV approach explicitly values the market imperfections and therefore allows managers to measure their contribution to value.
- B) We need to know the debt level to compute the APV, but with a constant debt-equity ratio we need to know the project's value to compute the debt level.
- C) The WACC method is more complicated than the APV method because we must compute two separate valuations: the unlevered project and the interest tax shield.
- D) Implementing the APV approach with a constant debt-equity ratio requires solving for the project's debt and value simultaneously.

Answer: <https://biology-forums.com/index.php?topic=816268>

Question 883

Suppose a risky security pays an average cash flow of \$100 in one year. The risk-free rate is 5%, and the expected return on the market index is 13%. If the returns on this security are high when the economy is strong and low when the economy is weak, but the returns vary by only half as much as the market index, then the price for this risky security is closest to:

- A) \$88
- B) \$92

- C) \$93
- D) \$95

Answer: <https://biology-forums.com/index.php?topic=814789>

Question 884

Which of the following formulas is INCORRECT?

- A) Forward =
- B) Forward =
- C) =
- D) Forward =

Answer: <https://biology-forums.com/index.php?topic=815344>

Question 885

Which of the following statements is FALSE?

- A) A biotech firm might be developing drugs with tremendous potential, but it has yet to receive any revenue from these drugs. Such a firm will not have taxable earnings. In that case, a tax-optimal capital structure does not include debt.
- B) No corporate tax benefit arises from incurring interest payments that regularly exceed EBIT.
- C) The optimal level of leverage from a tax saving perspective is the level such that interest equals EBIT.
- D) In general, as a firm's interest expense approaches its expected taxable earnings, the marginal tax advantage of debt increases, limiting the amount of equity the firm should use.

Answer: <https://biology-forums.com/index.php?topic=816023>

Question 886

The market portfolio:

- A) is underpriced.
- B) has a positive alpha.
- C) is overpriced.
- D) falls on the SML.

Answer: <https://biology-forums.com/index.php?topic=815790>

Question 887

The equity cost of capital for "Meenie" is closest to:

- A) 4.50%
- B) 7.50%
- C) 9.30%
- D) 9.75%

Answer: <https://biology-forums.com/index.php?topic=815646>

Question 888

The unlevered cost of capital for Antelope Incorporated is closest to:

- A) 10.3%
- B) 9.9%
- C) 10.1%
- D) 9.5%

Answer: <https://biology-forums.com/index.php?topic=816300>

Question 889

What is the role of an auditor in financial statement analysis?

Answer: <https://biology-forums.com/index.php?topic=814610>

Question 890

If the interest rate is 7%, the NPV of alternative #2 is closest to:

- A) \$350,000
- B) \$357,196
- C) \$370,561
- D) \$401,121

Answer: <https://biology-forums.com/index.php?topic=814735>

Question 891

Suppose a security with a risk-free cash flow of \$1000 in one year trades for \$909 today. If there are no arbitrage opportunities, then the current risk-free interest rate is closest to:

- A) 8%
- B) 10%
- C) 11%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=814776>

Question 892

Assuming your cost of capital is 6 percent, the present value of your expected wage if you accept Rearden Metal's offer is closest to:

- A) \$133,000
- B) \$138,000
- C) \$140,000
- D) \$144,000

Answer: <https://biology-forums.com/index.php?topic=816042>

Question 893

If you take the \$2500 rebate and finance your new car through your credit union your monthly payments will be closest to:

- A) \$520
- B) \$573
- C) \$593
- D) \$799

Answer: <https://biology-forums.com/index.php?topic=814912>

Question 894

Assuming that Luther's bonds receive a AAA rating, the price of the bonds will be closest to:

- A) \$1021
- B) \$1014
- C) \$1000
- D) \$937

Answer: <https://biology-forums.com/index.php?topic=815062>

Question 895

Which of the following statements is FALSE?

- A) One disadvantage of using leverage is that it does not allow the original owners of the firm to maintain their equity stake.
- B) The separation of ownership and control creates the possibility of management entrenchment; facing little threat of being fired and replaced, managers are free to run the firm in their own best interests.
- C) Managers also have their own personal interests, which may differ from those of both equity holders and debt holders.
- D) The costs of reduced effort and excessive spending on perks are another form of agency cost.

Answer: <https://biology-forums.com/index.php?topic=816112>

Question 896

Luther Industries is considering borrowing \$500 million to fund a new product line. Given investors' uncertainty regarding its prospects, Luther will pay a 7% interest rate on this loan. The firm's management knows, that the actual risk of the loan is extremely low and that the appropriate rate on the loan is 5%. Suppose the loan is for four years, with all principal being repaid in the fourth year. If Luther's marginal corporate tax rate is 35%, then the net effect of the loan on the value of the new product line is closest to:

- A) \$22 million
- B) \$34 million
- C) \$35 million
- D) \$24 million

Answer: <https://biology-forums.com/index.php?topic=816420>

Question 897

Which of the following statements is FALSE?

- A) When an investment is risky, there are different returns it may earn.
- B) In finance, the variance of a return is also referred to as its volatility.
- C) The expected or mean return is calculated as a weighted average of the possible returns, where the weights correspond to the probabilities.
- D) The variance is a measure of how "spread out" the distribution of the return is.

Answer: <https://biology-forums.com/index.php?topic=815371>

Question 898

Which of the following is NOT a systematic risk?

- A) The risk that oil prices rise, increasing production costs
- B) The risk that the Federal Reserve raises interest rates
- C) The risk that the economy slows, reducing demand for your firm's products
- D) The risk that your new product will not receive regulatory approval

Answer: <https://biology-forums.com/index.php?topic=815426>

Question 899

The unlevered value of Rose's acquisition is closest to:

- A) \$63 million
- B) \$50 million
- C) \$167 million
- D) \$100 million

Answer: <https://biology-forums.com/index.php?topic=816371>

Question 900

The firm's equity multiplier measures:

- A) the value of assets held per dollar of shareholder equity.
- B) the return the firm has earned on its past investments.
- C) the firm's ability to sell a product for more than the cost of producing it.
- D) how efficiently the firm is utilizing its assets to generate sales.

Answer: <https://biology-forums.com/index.php?topic=814689>

Question 901

Which of the following statements is FALSE?

- A) The data show a clear preference for equity as a source of external financing for the total population of U.S. firms.
- B) Debt as a fraction of firm value has varied in a range from 30-45% for the average firm.
- C) Capital expenditures greatly exceed firms' external financing, implying that most investment and growth is supported by internally generated funds, such as retained earnings.
- D) Firms in growth industries like biotechnology or high technology carry very little debt, whereas airlines, auto makers, utilities, and financial firms have high leverage ratios.

Answer: <https://biology-forums.com/index.php?topic=816020>

Question 902

The NPV for project Alpha is closest to:

- A) \$20.96
- B) \$16.92
- C) \$24.01
- D) \$14.41

Answer: <https://biology-forums.com/index.php?topic=815093>

Question 903

If the appropriate interest rate is 15%, then Nielson Motors should:

- A) invest in this opportunity since the NPV is positive.
- B) not invest in this opportunity since the NPV is positive.
- C) invest in this opportunity since the NPV is negative.
- D) not invest in this opportunity since the NPV is negative.

Answer: <https://biology-forums.com/index.php?topic=814837>

Question 904

Suppose that to fund this new project, Aardvark borrows \$120 with the principal to be paid in three equal installments at the end each year. The levered value of Aardvark's new project is closest to:

- A) \$210.15
- B) \$207.35
- C) \$207.00
- D) \$210.50

Answer: <https://biology-forums.com/index.php?topic=816410>

Question 905

If the market risk premium is 6% and the risk-free rate is 4%, then the expected return of investing in Merck is closest to:

- A) 5.4%
- B) 9.4%
- C) 10.0%
- D) 10.4%

Answer: <https://biology-forums.com/index.php?topic=815457>

Question 906

Which of the following statements is FALSE?

- A) The existence of the momentum trading strategies has been widely known for at least ten years.
- B) The information required to implement a momentum strategy is not readily available to investors.
- C) If the market portfolio is not efficient, then a stock's beta with the market is not an adequate measure of its systematic risk.
- D) If the market portfolio is not efficient, then the so-called profits from a positive alpha trading strategy are really returns for bearing risk that investors are averse to and the CAPM doesn't capture.

Answer: <https://biology-forums.com/index.php?topic=815802>

Question 907

A(n) _____ may occur if a major shareholder desires to sell a large number of shares but the market for the shares is not sufficiently liquid to sustain such a large sale without severely affecting the price.

- A) open market share repurchases
- B) Dutch auction share repurchase
- C) tender offer
- D) targeted repurchase

Answer: <https://biology-forums.com/index.php?topic=816148>

Question 908

Which of the following statements is FALSE?

- A) If a bond trades at a premium, its yield to maturity will exceed its coupon rate.
- B) A bond that trades at a premium is said to trade above par.
- C) When a coupon-paying bond is trading at a premium, an investor's return from the coupons is diminished by receiving a face value less than the price paid for the bond.
- D) Holding fixed the bond's yield to maturity, for a bond not trading at par, the present value of the bond's remaining cash flows changes as the time to maturity decreases.

Answer: <https://biology-forums.com/index.php?topic=814998>

Question 909

Which of the following statements is FALSE?

- A) The break-even level of an input is the level for which the investment has an IRR of zero.
- B) The most difficult part of capital budgeting is deciding how to estimate the cash flows and the cost of capital.
- C) When evaluating a capital budgeting project, financial managers should make the decision that maximizes NPV.
- D) Sensitivity analysis reveals which aspects of the project are most critical when we are actually managing the project.

Answer: <https://biology-forums.com/index.php?topic=815258>

Question 910

Which of the following statements is FALSE?

- A) Firms adjust dividends relatively infrequently, and dividends are much less volatile than earnings. This practice of maintaining relatively constant dividends is called dividend signaling.
- B) When a firm increases its dividend, it sends a positive signal to investors that management expects to be able to afford the higher dividend for the foreseeable future.
- C) The average size of the stock price reaction increases with the magnitude of the dividend change, and is larger for dividend cuts.
- D) When managers cut the dividend, it may signal that they have given up hope that earnings will rebound in the near term and need to reduce the dividend to save cash.

Answer: <https://biology-forums.com/index.php?topic=816222>

Question 911

The payback period for project A is closest to:

- A) 2.0 years
- B) 2.4 years

C) 2.5 years

D) 2.2 years

Answer: <https://biology-forums.com/index.php?topic=815128>

Question 912

Assume that you have \$250,000 to invest and you are interested in creating a value-weighted portfolio of these four stocks. How many shares of each of the four stocks will you hold? What percentage of the shares outstanding of each stock will you hold?

Answer: <https://biology-forums.com/index.php?topic=815677>

Question 913

Which of the following statements is FALSE?

A) Because value is lost when a resource is used by another project, we should include the opportunity cost as an incremental cost of the project.

B) Sunk costs are incremental with respect to the current decision regarding the project and should be included in its analysis.

C) Overhead expenses are associated with activities that are not directly attributable to a single business activity but instead affect many different areas of the corporation.

D) When computing the incremental earnings of an investment decision, we should include all changes between the firm's earnings with the project versus without the project.

Answer: <https://biology-forums.com/index.php?topic=815176>

Question 914

If Wyatt adjusts its debt once per year to maintain a constant debt-equity ratio of 50%, then the appropriate WACC for this new project is closest to:

A) 7.5%

B) 8.67%

C) 10.27%

D) 10.8%

Answer: <https://biology-forums.com/index.php?topic=816328>

Question 915

Which of the following is NOT one of the simplifying assumptions made for the three main methods of capital budgeting?

A) The firm pays out all earnings as dividends.

B) The project has average risk.

C) Corporate taxes are the only market imperfection.

D) The firm's debt-equity ratio is constant.

Answer: <https://biology-forums.com/index.php?topic=816238>

Question 916

Based upon the average EV/EBITDA ratio of the comparable firms, Ideko's target economic value is closest to:

A) \$191 million

B) \$155 million

C) \$157 million

D) \$193 million

Answer: <https://biology-forums.com/index.php?topic=816436>

Question 917

Suppose you plan on purchasing Von Bora stock in one year, right after the \$1.40 dividend is paid. You then plan on selling your stock at the end of year two, right after the \$1.50 dividend is paid. The capital gain rate that you will receive on your investment is closest to:

A) 4.00%

B) 3.75%

C) 6.25%

D) 3.50%

Answer: <https://biology-forums.com/index.php?topic=815306>

Question 918

You have an investment opportunity in Germany that requires an investment of \$250,100 today and will produce a cash flow of €208,650 in one year with no risk. Suppose the risk-free rate of interest in Germany is 7% and the current competitive exchange rate is €0.78 to \$1.00. What is the NPV of this project? Would you take the project?

A) NPV = -\$100; No

B) NPV = \$100; Yes

C) NPV = \$2358; Yes

D) NPV = \$3650; Yes

Answer: <https://biology-forums.com/index.php?topic=814747>

Question 919

The idea that when a seller has private information about the value of good, buyers will discount the price they are willing to pay due to adverse selection is known as the:

- A) pecking order hypothesis.
- B) signaling theory of debt.
- C) lemons principle.
- D) credibility principle.

Answer: <https://biology-forums.com/index.php?topic=816133>

Question 920

Suppose that to raise the funds for the initial investment, the project is sold to investors as an all-equity firm. The equity holders will receive the cash flows of the project in one year. The market value of the unlevered equity for this project is closest to:

- A) \$94,100
- B) \$90,000
- C) \$86,250
- D) \$98,600

Answer: <https://biology-forums.com/index.php?topic=815837>

Question 921

If the current rate of interest is 8% APR, then the present value of an investment that pays \$250 per quarter and lasts 20 years is closest to:

- A) \$18,519
- B) \$48,443
- C) \$9936
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=814877>

Question 922

You are offered an investment that offers an effective annual rate of 8%. If this investment offers continuous compounding, then the APR for this investment is closest to:

- A) 7.70%
- B) 8.00%
- C) 8.25%
- D) 8.33%

Answer: <https://biology-forums.com/index.php?topic=814960>

Question 923

Which of the following statements is FALSE?

- A) Investors may have different information regarding expected returns, correlations, and volatilities, but they correctly interpret that information and the information contained in market prices and they adjust their estimates of expected returns in a rational way.
- B) Investors may learn different information through their own research and observations, but as long as they understand the differences in information and learn from other investors by observing prices, the CAPM conclusions still stand.
- C) Every investor, regardless of how much information he has access to, can guarantee himself an alpha of zero by holding the market portfolio.
- D) The CAPM requires making the strong assumption of homogeneous expectations.

Answer: <https://biology-forums.com/index.php?topic=815638>

Question 924

Suppose you plan to hold Von Bora stock for only one year. Your capital gain from holding Von Bora stock for the first year is closest to:

- A) \$0.95
- B) \$1.40
- C) \$1.85
- D) \$1.25

Answer: <https://biology-forums.com/index.php?topic=815303>

Question 925

The price today of a two-year default-free security with a face value of \$1000 and an annual coupon rate of 5% is closest to:

- A) \$1002.78
- B) \$1003.31
- C) \$1028.50

D) \$1028.61

Answer: <https://biology-forums.com/index.php?topic=815029>

Question 926

You are looking for a new truck and see the following advertisement. "Own a new truck! No money down. Just five easy annual payments of \$8000." You know that you can get the same truck from the dealer across town for only \$31,120. The interest rate for the deal advertised is closest to:

- A) 9%
- B) 8%
- C) 8.5%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=814885>

Question 927

Assume that EGI decides to wait until after the release of the new video game before they raise the \$100 million through the issuance of new shares. The number of new shares that EGI will issue is closest to:

- A) 1.6 million
- B) 5.0 million
- C) 10 million
- D) 6.25 million

Answer: <https://biology-forums.com/index.php?topic=816135>

Question 928

Taggart's stock price is closest to:

- A) \$12.50
- B) \$15.40
- C) \$20.00
- D) \$25.00

Answer: <https://biology-forums.com/index.php?topic=815325>

Question 929

If RBC acquires POP, in what year will RBC be required to pay corporate taxes again?

- A) 2 years
- B) 3 years
- C) 4 years
- D) 5 years

Answer: <https://biology-forums.com/index.php?topic=815256>

Question 930

The cost of capital for the oil refining division is closest to:

- A) 6.5%
- B) 7.0%
- C) 8.5%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815723>

Question 931

Suppose that you have invested \$30,000 in the market portfolio. Then the number of shares of Rearden Metal that you hold is closest to:

- A) 450 shares
- B) 700 shares
- C) 1400 shares
- D) 2300 shares

Answer: <https://biology-forums.com/index.php?topic=815653>

Question 932

Which of the following statements is FALSE?

- A) Project externalities are direct effects of the project that may increase or decrease the profits of other business activities of the firm.
- B) Incremental earnings are the amount by which the firm's earnings are expected to change as a result of the investment decision.
- C) The average selling price of a product and its cost of production will generally change over time.
- D) Any money that has already been spent is a sunk cost and therefore irrelevant in the capital budgeting process.

Answer: <https://biology-forums.com/index.php?topic=815179>

Question 933

The credit spread on AAA-rated corporate bonds is:

- A) 1.0%
- B) 1.5%
- C) 2.6%
- D) 4.1%

Answer: <https://biology-forums.com/index.php?topic=815051>

Question 934

The Sharpe ratio for the value stock portfolio is closest to:

- A) .53
- B) .58
- C) .61
- D) .79

Answer: <https://biology-forums.com/index.php?topic=815553>

Question 935

If shareholders are unhappy with a CEO's performance, they are most likely to:

- A) buy more shares in an effort to gain control of the firm.
- B) file a shareholder resolution.
- C) replace the CEO through a grassroots shareholder uprising.
- D) sell their shares.

Answer: <https://biology-forums.com/index.php?topic=814588>

Question 936

Suppose you have \$10,000 in cash to invest. You decide to sell short \$5000 worth of Kinston stock and invest the proceeds from your short sale, plus your \$10,000 into one-year U.S. treasury bills earning 5%. At the end of the year, you decide to liquidate your portfolio. Kinston Industries has the following realized returns:

P0 Div1 P1

Kinston \$25.00 \$1.00 \$29.00

The return on your portfolio is closest to:

- A) -0.5%
- B) 13.5%
- C) -2.5%
- D) 14.5%

Answer: <https://biology-forums.com/index.php?topic=815521>

Question 937

You are considering purchasing a new home. You will need to borrow \$250,000 to purchase the home. A mortgage company offers you a 15 year fixed rate mortgage (180 months) at 9% APR (0.75% month). If you borrow the money from this mortgage company, your monthly mortgage payment will be closest to:

- A) \$2585
- B) \$660
- C) \$2535
- D) \$1390

Answer: <https://biology-forums.com/index.php?topic=814876>

Question 938

Taggart Transcontinental has announced a \$2 dividend. If Taggart's last price cum-dividend is \$45, then, assuming perfect capital markets, what should its first ex-dividend price be?

- A) \$0
- B) \$2
- C) \$43
- D) \$45

Answer: <https://biology-forums.com/index.php?topic=816150>

Question 939

Investors that suffer from a familiarity bias:

- A) prefer not to invest in companies they are familiar with.

- B) favor investments in companies they are familiar with.
- C) invest in the same stocks that their friends or family recommend.
- D) tend to overestimate the precision of their knowledge.

Answer: <https://biology-forums.com/index.php?topic=815757>

Question 940

If its YTM does not change, how does a bond's cash price change between coupon payments?

Answer: <https://biology-forums.com/index.php?topic=815023>

Question 941

Which of the following statements is FALSE?

- A) Sales will ultimately decline as the product nears obsolescence or faces increased competition.
- B) Managers sometimes continue to invest in a project that has a negative NPV because they have already invested a large amount in the project and feel that by not continuing it, the prior investment will be wasted.
- C) With straight-line depreciation the asset's cost is divided equally over its life.
- D) A project's unlevered net income is equal to its incremental revenues less costs and depreciation, evaluated on a pre-tax basis.

Answer: <https://biology-forums.com/index.php?topic=815168>

Question 942

If ECE's return on assets (ROA) is 12%, then ECE's return on equity (ROE) is:

- A) 10%
- B) 12%
- C) 18%
- D) 22%

Answer: <https://biology-forums.com/index.php?topic=814685>

Question 943

The unlevered beta for Blinkin is closest to:

- A) 0.95
- B) 1.10
- C) 1.00
- D) 0.90

Answer: <https://biology-forums.com/index.php?topic=815903>

Question 944

The present value of Wyatt's annual interest tax shield is closest to:

- A) \$4.2 million
- B) \$7.0 million
- C) \$40 million
- D) \$60 million

Answer: <https://biology-forums.com/index.php?topic=815951>

Question 945

Which of the following are subject to double taxation?

- A) Corporation
- B) Partnership
- C) Sole proprietorship
- D) A and B

Answer: <https://biology-forums.com/index.php?topic=814579>

Question 946

If the expected return on the market is 11% and the risk-free rate is 4%, then the expected return of investing in IBM is closest to:

- A) 9.1%
- B) 10.3%
- C) 11.0%
- D) 12.0%

Answer: <https://biology-forums.com/index.php?topic=815458>

Question 947

Which of these bonds sells at a discount?

- A) #1
- B) #2
- C) #3
- D) #4

Answer: <https://biology-forums.com/index.php?topic=815006>

Question 948

Equity in a firm with no debt is called:

- A) levered equity.
- B) unlevered equity.
- C) riskless equity.
- D) risky equity.

Answer: <https://biology-forums.com/index.php?topic=815833>

Question 949

The incremental EBIT for the Shepard Industries project in year one is closest to:

- A) \$360
- B) \$750
- C) \$595
- D) \$510

Answer: <https://biology-forums.com/index.php?topic=815218>

Question 950

You own 100 shares of a "C" corporation. The corporation earns \$5.00 per share before taxes. Once the corporation has paid any corporate taxes that are due, it will distribute the rest of its earnings to its shareholders in the form of a dividend. If the corporate tax rate is 40% and your personal tax rate on (both dividend and non-dividend) income is 30%, then how much money is left for you after all taxes have been paid?

- A) \$210
- B) \$300
- C) \$350
- D) \$500

Answer: <https://biology-forums.com/index.php?topic=814580>

Question 951

If Moon Corporation has depreciation or amortization expense, which of the following is TRUE?

- A) Its EBITDA /Interest Coverage ratio will be greater than its EBIT/Interest Coverage ratio.
- B) Its EBITDA /Interest Coverage ratio will be less than its EBIT/Interest Coverage ratio.
- C) Its EBITDA /Interest Coverage ratio will be equal to its EBIT/Interest Coverage ratio.
- D) Not enough information to answer the question.

Answer: <https://biology-forums.com/index.php?topic=814696>

Question 952

Consider a zero-coupon bond with a \$1000 face value and 10 years left until maturity. If the bond is currently trading for \$459, then the yield to maturity on this bond is closest to:

- A) 7.5%
- B) 10.4%
- C) 9.7%
- D) 8.1%

Answer: <https://biology-forums.com/index.php?topic=814978>

Question 953

Aardvark's unlevered cost of equity is closest to:

- A) 10.0%
- B) 10.4%
- C) 9.5%
- D) 9.0%

Answer: <https://biology-forums.com/index.php?topic=816312>

Question 954

Suppose that Rearden Metal currently has no debt and has an equity cost of capital of 12%. Rearden is considering borrowing funds at a cost of 6%

and using these funds to repurchase existing shares of stock. Assume perfect capital markets. If Rearden borrows until they achieved a debt-to-equity ratio of 50%, then Rearden's levered cost of equity would be closest to:

- A) 10.0%
- B) 12.0%
- C) 15.0%
- D) 16.0%

Answer: <https://biology-forums.com/index.php?topic=815883>

Question 955

If the Krusty Krab's opportunity cost of capital is 12%, then the IRR for upgrading to the new grill is closest to:

- A) 3.25%
- B) 16.00%
- C) 18.25%
- D) 21.00%

Answer: <https://biology-forums.com/index.php?topic=815247>

Question 956

What is the NPV of the Epiphany's project?

Answer: <https://biology-forums.com/index.php?topic=815267>

Question 957

An investment is said to be liquid if the investment:

- A) has large day to day fluctuations in price.
- B) has a large bid-ask spread.
- C) can easily be converted into cash.
- D) is traded on a stock exchange.

Answer: <https://biology-forums.com/index.php?topic=814600>

Question 958

With its current leverage, WELS Corporation will have Free Cash Flow of \$4 million. If WELS corporate tax rate is 35% and it pays 8% interest on its debt, how much additional debt can WELS issue this year and still receive the benefit of the interest tax shield next year?

Answer: <https://biology-forums.com/index.php?topic=816025>

Question 959

The variance on a portfolio that is made up of a \$6000 investments in Duke Energy and a \$4000 investment in Wal-Mart stock is closest to:

- A) .050
- B) .045
- C) .051
- D) -0.020

Answer: <https://biology-forums.com/index.php?topic=815502>

Question 960

The firm's revenues and expenses over a period of time are reported on the firm's:

- A) income statement or statement of financial performance.
- B) income statement or statement of financial position.
- C) balance sheet or statement of financial performance.
- D) balance sheet or statement of financial position.

Answer: <https://biology-forums.com/index.php?topic=814640>

Question 961

A three-month treasury bill sold for a price of \$99.311998 per \$100 face value. The yield to maturity of this bond expressed as an EAR is closest to:

- A) 2.5%
- B) 2.8%
- C) 3.2%
- D) 4.0%

Answer: <https://biology-forums.com/index.php?topic=814975>

Question 962

The Debt Capacity for Omicron's new project in year 0 is closest to:

- A) \$38.75
- B) \$75.50
- C) \$50.25
- D) \$10.25

Answer: <https://biology-forums.com/index.php?topic=816256>

Question 963

Which of the following statements is FALSE?

- A) Bond ratings encourage widespread investor participation and relatively liquid markets.
- B) Bonds in the top four categories are often referred to as investment grade bonds.
- C) A bond's rating depends on the risk of bankruptcy as well as the bondholder's ability to lay claim to the firm's assets in the event of a bankruptcy.
- D) Debt issues with a low-priority claim in bankruptcy will have a better rating than issues from the same company that have a higher priority in bankruptcy.

Answer: <https://biology-forums.com/index.php?topic=815048>

Question 964

What is Luther's net working capital in 2008?

- A) \$12 million
- B) \$27 million
- C) \$39 million
- D) \$63.6 million

Answer: <https://biology-forums.com/index.php?topic=814629>

Question 965

The present value of LCMS' interest tax shield is closest to:

- A) \$45.5 million
- B) \$20.0 million
- C) \$24.5 million
- D) \$35.0 million

Answer: <https://biology-forums.com/index.php?topic=815979>

Question 966

The market capitalization of d'Anconia Copper before this transaction takes place is closest to:

- A) \$800 million
- B) \$900 million
- C) \$1100 million
- D) \$1200 million

Answer: <https://biology-forums.com/index.php?topic=815853>

Question 967

Omicron's Unlevered cost of capital is closest to:

- A) 8.75%
- B) 7.10%
- C) 9.60%
- D) 7.50%

Answer: <https://biology-forums.com/index.php?topic=816274>

Question 968

What is the overall expected payoff under JR's new riskier business strategy?

- A) \$4 million
- B) \$11 million
- C) \$20 million
- D) \$15 million

Answer: <https://biology-forums.com/index.php?topic=816096>

Question 969

For the year ending December 31, 2009 Luther's cash flow from investing activities is:

- A) 122.49
- B) 358.2
- C) 66.39

D) 295.71

Answer: <https://biology-forums.com/index.php?topic=814653>

Question 970

Which of the following statements is FALSE?

- A) A bond trades at par when its coupon rate is equal to its yield to maturity.
- B) The clean price of a bond is adjusted for accrued interest.
- C) The price of the bond will drop by the amount of the coupon immediately after the coupon is paid.
- D) If a coupon bond's yield to maturity exceeds its coupon rate, the present value of its cash flows at the yield to maturity will be greater than its face value.

Answer: <https://biology-forums.com/index.php?topic=814996>

Question 971

An exploration of the effect on NPV of changing multiple project parameters is called:

- A) scenario analysis.
- B) IRR analysis.
- C) accounting break-even analysis.
- D) sensitivity analysis.

Answer: <https://biology-forums.com/index.php?topic=815262>

Question 972

Suppose that the ETF is trading for \$362.36; you should:

- A) sell the EFT and buy 2 shares of IBM, 3 shares of MRK, and 3 shares of C.
- B) sell the EFT and buy 3 shares of IBM, 2 shares of MRK, and 3 shares of C.
- C) buy the EFT and sell 2 shares of IBM, 3 shares of MRK, and 3 shares of C.
- D) do nothing, no arbitrage opportunity exists.

Answer: <https://biology-forums.com/index.php?topic=814775>

Question 973

Assume that Omicron uses the entire \$50 million in excess cash to pay a special dividend. Omicron's ex-dividend price is closest to:

- A) \$40.00
- B) \$5.00
- C) \$50.00
- D) \$45.00

Answer: <https://biology-forums.com/index.php?topic=816163>

Question 974

If the interest rate is 7%, the alternative with the lowest NPV is:

- A) Alternative #1 with an NPV of approximately \$350,000
- B) Alternative #2 with an NPV of approximately \$370,561
- C) Alternative #3 with an NPV of approximately \$357,196
- D) Alternative #2 with an NPV of approximately \$380,561

Answer: <https://biology-forums.com/index.php?topic=814738>

Question 975

Which of the following statements is correct?

- A) You should invest in project Beta since $NPV_{\text{Beta}} > 0$.
- B) You should invest in project Alpha since $IRR_{\text{Alpha}} > IRR_{\text{Beta}}$.
- C) You should invest in project Alpha since $NPV_{\text{Alpha}} < 0$.
- D) You should invest in project Beta since $IRR_{\text{Beta}} > 0$.

Answer: <https://biology-forums.com/index.php?topic=815113>

Question 976

Taggart Transcontinental currently has no debt and an equity cost of capital of 16%. Suppose that Taggart decides to increase its leverage and maintain a market debt-to-value ratio of 1/3. Suppose Taggart's debt cost of capital is 9% and its corporate tax rate is 35%. Assuming that Taggart's pre-tax WACC remains constant, then with the addition of leverage its effective after-tax WACC will be closest to:

- A) 12.9%
- B) 13.0%
- C) 15.0%
- D) 16.0%

Answer: <https://biology-forums.com/index.php?topic=815956>

Question 977

Suppose that you want to maximize your expected return without increasing your risk. How can you achieve this goal? Without increasing your risk, what is the maximum expected return you can expect?

Answer: <https://biology-forums.com/index.php?topic=815543>

Question 978

Suppose you plan to hold Von Bora stock for only one year. Your capital gain rate from holding Von Bora stock for the first year is closest to:

- A) 3.5%
- B) 4.0%
- C) 6.0%
- D) 4.5%

Answer: <https://biology-forums.com/index.php?topic=815304>

Question 979

The alpha for the informed investors is closest to:

- A) -2.4%
- B) -0.9%
- C) 0.0%
- D) 3.6%

Answer: <https://biology-forums.com/index.php?topic=815769>

Question 980

The cost of capital for the oil exploration division is closest to:

- A) 6.0%
- B) 7.0%
- C) 8.5%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815722>

Question 981

If Wyatt adjusts its debt continuously to maintain a constant debt-equity ratio of 50%, then the value of this new project is closest to:

- A) \$188 million
- B) \$188.5 million
- C) \$320 million
- D) \$340 million

Answer: <https://biology-forums.com/index.php?topic=816424>

Question 982

Assume the appropriate discount rate for this project is 15%. The IRR for this project is closest to:

- A) 21%
- B) 22%
- C) 15%
- D) 60%

Answer: <https://biology-forums.com/index.php?topic=815106>

Question 983

An exception to the key difference between sovereign default and corporate bonds is:

- A) member states of the U.S.
- B) member states of the EMU.
- C) member states of the African Union.
- D) member states of the NAFTA.

Answer: <https://biology-forums.com/index.php?topic=815070>

Question 984

Suppose that you want to use the 10 year historical average return on the Index to forecast the expected future return on the Index. The standard error of your estimate of the expected return is closest to:

- A) 19.4%

- B) 3.8%
- C) 6.2%
- D) 1.95%

Answer: <https://biology-forums.com/index.php?topic=815395>

Question 985

Which alternative offers you the highest effective rate of return?

- A) Investment A
- B) Investment B
- C) Investment C
- D) Investment D

Answer: <https://biology-forums.com/index.php?topic=814897>

Question 986

The incremental cash flow that Galt Motors will incur in year 10 if they elect to manufacture armatures in house is closest to:

- A) 40,000
- B) 335,000
- C) 375,000
- D) 415,000

Answer: <https://biology-forums.com/index.php?topic=815239>

Question 987

Suppose that MI has zero-coupon debt with a \$125 million face value due next year. The expected return of MI's debt is closest to:

- A) 25.0%
- B) 12.5%
- C) 5.0%
- D) 7.8%

Answer: <https://biology-forums.com/index.php?topic=816033>

Question 988

Using just the return data for 2008, your estimate of Wyatt Oil's Beta is closest to:

- A) 0.85
- B) 0.87
- C) 1.00
- D) 1.17

Answer: <https://biology-forums.com/index.php?topic=815687>

Question 989

Which of the following statements is TRUE?

- A) Small stocks have outperformed the S&P 500 in every year since 1925.
- B) The S&P 500 is more volatile than corporate bonds.
- C) Corporate bonds underperformed inflation during most years since 1925.
- D) Treasury Bills outperformed inflation during every year since 1925.

Answer: <https://biology-forums.com/index.php?topic=815369>

Question 990

Assume the appropriate discount rate for this project is 15%. The profitability index for this project is closest to:

- A) .14
- B) .22
- C) .60
- D) .15

Answer: <https://biology-forums.com/index.php?topic=815153>

Question 991

The free cash flow to equity in 2010 is closest to:

- A) 6255
- B) 10,684
- C) 11,559
- D) 18,394

Answer: <https://biology-forums.com/index.php?topic=816452>

Question 992

U.S. public companies are required to file their annual financial statements with the U.S. Securities and Exchange Commission on which form?

- A) 10-A
- B) 10-K
- C) 10-Q
- D) 10-SEC

Answer: <https://biology-forums.com/index.php?topic=814607>

Question 993

Which of the following statements is FALSE?

- A) Even after adjusting for personal taxes, the value of an unlevered firm exceeds the value of a levered firm, and there is a tax advantage to using debt financing.
- B) In Modigliani and Miller's setting of perfect capital markets, firms could use any combination of debt and equity to finance their investments without changing the value of the firm.
- C) When firms raise new capital from investors, they do so primarily by issuing debt.
- D) In most years aggregate equity issues are negative, meaning that firms are reducing the amount of equity outstanding by buying shares.

Answer: <https://biology-forums.com/index.php?topic=816019>

Question 994

Which of the following stocks represent selling opportunities?

1. Taggart Transcontinental
2. Rearden Metal
3. Wyatt Oil
4. Nielson Motors

- A) 1 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) 2 and 4 only

Answer: <https://biology-forums.com/index.php?topic=815752>

Question 995

Assume that investors in Google pay a 15% tax rate on income from equity and a 35% tax rate on interest income. If Google were to issue sufficient debt to reduce its corporate taxes by \$1 billion per year permanently, then the value that would be created is closest to:

- A) \$6.1 billion
- B) \$10.2 billion
- C) \$12.2 billion
- D) \$14.3 billion

Answer: <https://biology-forums.com/index.php?topic=815999>

Question 996

You are offered an investment that pays 8% APR compounded continuously. The effective annual rate for this investment is closest to:

- A) 7.70%
- B) 8.00%
- C) 8.33%
- D) 8.50%

Answer: <https://biology-forums.com/index.php?topic=814959>

Question 997

Which of the following statements is FALSE?

- A) It is not actually necessary to identify the efficient portfolio itself. All that is required is to identify a collection of portfolios from which the efficient portfolio can be constructed.
- B) Although we might not be able to identify the efficient portfolio itself, we know some characteristics of the efficient portfolio.
- C) An efficient portfolio can be constructed from other diversified portfolios.
- D) An efficient portfolio need not be well diversified.

Answer: <https://biology-forums.com/index.php?topic=815814>

Question 998

Wesley Mouch's auto loan requires monthly payments and has an effective annual rate of 6.43%. The APR on this auto loan is closest to:

- A) 6.00%

- B) 6.25%
- C) 6.50%
- D) 6.62%

Answer: <https://biology-forums.com/index.php?topic=814904>

Question 999

Which of the following statements is FALSE?

- A) The amount of each coupon payment is determined by the coupon rate of the bond.
- B) Prior to its maturity date, the price of a zero-coupon bond is always greater than its face value.
- C) The simplest type of bond is a zero-coupon bond.
- D) Treasury bills are U.S. government bonds with a maturity of up to one year.

Answer: <https://biology-forums.com/index.php?topic=814965>

Question 1000

Delta Products has decided to spin-off one of its subsidiaries, Gamma Technologies. Each Delta shareholder will receive 0.125 shares of Gamma for each share of Delta they own. Delta's price is \$35.00 cum-dividend and immediately after the spin-off Gamma Technologies was trading for \$24.00 per share. In a perfect capital market, what would Delta Product's ex-dividend share price be after this transaction?

Answer: <https://biology-forums.com/index.php?topic=816237>

Question 1001

The maximum number of IRRs that could exist for project B is:

- A) 3
- B) 1
- C) 2
- D) 0

Answer: <https://biology-forums.com/index.php?topic=815110>

Question 1002

Wyatt Oil has a bond issue outstanding with seven years to maturity, a yield to maturity of 7.0%, and a BBB rating. The corresponding risk-free rate is 3% and the market risk premium is 5%. Assuming a normal economy, the expected return on Wyatt Oil's debt is closest to:

- A) 3.0%
- B) 3.5%
- C) 4.9%
- D) 5.5%

Answer: <https://biology-forums.com/index.php?topic=815694>

Question 1003

The WACC for this project is closest to:

- A) 3.0%
- B) 5.0%
- C) 7.0%
- D) 8.2%

Answer: <https://biology-forums.com/index.php?topic=816307>

Question 1004

Rearden Metal needs to order a new blast furnace that will be delivered in one year. The \$1,000,000 price for the blast furnace is due in one year when the new furnace is installed. The blast furnace manufacturer offers Rearden Metal a discount of \$50,000 if they pay for the furnace now. If the interest rate is 7%, then the NPV of paying for the furnace now is closest to:

- A) (\$15,421)
- B) \$15,421
- C) (\$46,729)
- D) \$46,729

Answer: <https://biology-forums.com/index.php?topic=814733>

Question 1005

Which of the following statements is FALSE?

- A) Portfolios with higher volatility have historically rewarded investors with higher average returns.
- B) Investments with higher volatility should have a higher risk premium and therefore higher returns.
- C) Volatility seems to be a reasonable measure of risk when evaluating returns on large portfolios and the returns of individual securities.
- D) Riskier investments must offer investors higher average returns to compensate them for the extra risk they are taking on.

Answer: <https://biology-forums.com/index.php?topic=815408>

Question 1006

Your son is about to start kindergarten in a private school. Currently, the tuition is \$12,000 per year, payable at the start of the school year. You expect annual tuition increases to average 6% per year over the next 13 years. Assuming that your son remains in this private school through high school and that your current interest rate is 6%, then the present value of your son's private school education is closest to:

- A) \$106,230
- B) \$156,000
- C) \$137,900
- D) This problem cannot be solved.

Answer: <https://biology-forums.com/index.php?topic=814860>

Question 1007

Which of the following projects should Nielson Motors accept?

- A) 1 only
- B) 1, 2, and 3 only
- C) 1 and 4 only
- D) 2, 3, and 5 only

Answer: <https://biology-forums.com/index.php?topic=816086>

Question 1008

What is the Beta for a type S firm?

- A) 1.5
- B) 0.0
- C) 1.0
- D) 0.75

Answer: <https://biology-forums.com/index.php?topic=815455>

Question 1009

The idea that managers who perceive the firm's equity is under-priced will have a preference to fund investment using retained earnings, or debt, rather than equity is known as the:

- A) signaling theory of debt.
- B) lemons principle.
- C) pecking order hypothesis.
- D) credibility principle.

Answer: <https://biology-forums.com/index.php?topic=816131>

Question 1010

The beta for Wyatt Oil is closest to:

- A) 0.75
- B) 0.80
- C) 1.00
- D) 1.10

Answer: <https://biology-forums.com/index.php?topic=815566>

Question 1011

The a_i in the regression:

- A) measures the sensitivity of the security to market risk.
- B) measures the deviation from the best fitting line and is zero on average.
- C) measures the diversifiable risk in returns.
- D) measures the historical performance of the security relative to the expected return predicted by the SML.

Answer: <https://biology-forums.com/index.php?topic=815692>

Question 1012

Which of the following statements is FALSE?

- A) It is possible that an IRR does not exist for an investment opportunity.
- B) If the payback period is less than a pre-specified length of time, you accept the project.
- C) The internal rate of return (IRR) investment rule is based upon the notion that if the return on other alternatives is greater than the return on the investment opportunity, you should undertake the investment opportunity.
- D) It is possible that there is no discount rate that will set the NPV equal to zero.

Answer: <https://biology-forums.com/index.php?topic=815123>

Question 1013

In order for Nielson Motor's to be willing to invest, project 5 must have an NPV greater than:

- A) \$10.0 million
- B) \$12.5 million
- C) \$18.0 million
- D) \$22.5 million

Answer: <https://biology-forums.com/index.php?topic=816089>

Question 1014

At an annual interest rate of 7%, the future value of this timeline in year 3 is closest to:

- A) \$3295
- B) \$3600
- C) \$3770
- D) \$4035

Answer: <https://biology-forums.com/index.php?topic=814830>

Question 1015

Which of the following questions is FALSE?

- A) Sometimes management may believe that the securities they are issuing are priced at less than (or more than) their true value. If so, the NPV of the transaction, which is the difference between the actual money raised and the true value of the securities sold, should not be included in the value of the project.
- B) An alternative method of incorporating financial distress and agency costs is to first value the project ignoring these costs, and then value the incremental cash flows associated with financial distress and agency problems separately.
- C) When the debt level—and, therefore, the probability of financial distress—is high, the expected free cash flow will be reduced by the expected costs associated with financial distress and agency problems.
- D) If the financing of the project involves an equity issue, and if management believes that the equity will sell at a price that is less than its true value, this mispricing is a cost of the project for the existing shareholders.

Answer: <https://biology-forums.com/index.php?topic=816324>

Question 1016

Assuming that Novartis AG (NVS) has an EPS of \$3.35, based upon the price-to-book ratios for its competitors, the lowest expected stock price for Novartis is closest to:

- A) \$7.47
- B) \$13.00
- C) \$22.95
- D) \$31.86

Answer: <https://biology-forums.com/index.php?topic=815348>

Question 1017

The Correlation between Stock X's and Stock Y's returns is closest to:

- A) 0.58
- B) 0.29
- C) 0.69
- D) 0.10

Answer: <https://biology-forums.com/index.php?topic=815495>

Question 1018

Which of the following statements is FALSE?

- A) About 75% of firms surveyed used the NPV rule for making investment decisions.
- B) If you are unsure of your cost of capital estimate, it is important to determine how sensitive your analysis is to errors in this estimate.
- C) To decide whether to invest using the NPV rule, we need to know the cost of capital.
- D) NPV is positive only for discount rates greater than the internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=815081>

Question 1019

The average annual return on the Index from 2000 to 2009 is closest to:

- A) 7.10%
- B) 4.00%

C) 9.75%

D) 8.75%

Answer: <https://biology-forums.com/index.php?topic=815389>

Question 1020

Prior to any borrowing and share repurchase, RC's EPS is closest to:

A) \$0.60

B) \$1.00

C) \$1.20

D) \$0.50

Answer: <https://biology-forums.com/index.php?topic=815917>

Question 1021

The Dodd-Frank Wall Street Reform and Consumer Protection Act does the following:

A) Exempts firms with less than \$75 million in publicly traded shares from some provisions of SOX.

B) Requires the SEC to study ways to reduce the cost of SOX for firms with less than \$250 million in publicly traded shares.

C) Strengthens whistle-blower provisions of SOX.

D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=814709>

Question 1022

Which of the following statements is FALSE?

A) The yield curve changes over time.

B) The formulas for computing present values of annuities and perpetuities cannot be used in situations in which cash flows need to be discounted at different rates.

C) We can use the term structure to compute the present and future values of a risk-free cash flow over different investment horizons.

D) The yield curve tends to be inverted as the economy comes out of a recession.

Answer: <https://biology-forums.com/index.php?topic=814930>

Question 1023

Suppose that a security with a risk-free cash flow of \$1000 in one year trades for \$930 today. If there are no arbitrage opportunities, then the current risk-free rate is closest to:

A) 6.0%

B) 6.5%

C) 7.0%

D) 7.5%

Answer: <https://biology-forums.com/index.php?topic=814779>

Question 1024

The tendency of uninformed individuals to overestimate the precision of their knowledge is known as:

A) overconfidence bias.

B) herd behavior.

C) familiarity bias.

D) disposition bias.

Answer: <https://biology-forums.com/index.php?topic=815758>

Question 1025

The amount of additional cash that d'Anconia Copper will have at the end of the year net of corporate taxes is closest to:

A) \$2.0 million

B) \$5.5 million

C) \$6.5 million

D) \$7.0 million

Answer: <https://biology-forums.com/index.php?topic=816198>

Question 1026

Which of the following statements is FALSE?

A) While the sign of the correlation is easy to interpret, its magnitude is not.

B) Independent risks are uncorrelated.

C) When the covariance equals 0, the returns are uncorrelated.

D) To find the risk of a portfolio, we need to know more than the risk and return of the component stocks; we need to know the degree to which the

stocks' returns move together.

Answer: <https://biology-forums.com/index.php?topic=815486>

Question 1027

Suppose that MI has zero-coupon debt with a \$125 million face value due next year. The yield to maturity of MI's debt is closest to:

- A) 12.5%
- B) 7.8%
- C) 25.0%
- D) 5.0%

Answer: <https://biology-forums.com/index.php?topic=816032>

Question 1028

The amount of Rosewood's interest tax shield is closest to:

- A) \$115 million
- B) \$290 million
- C) \$175 million
- D) \$60 million

Answer: <https://biology-forums.com/index.php?topic=815944>

Question 1029

The price per \$100 face value of a three-year, zero-coupon, risk-free bond is closest to:

- A) \$93.80
- B) \$90.06
- C) \$89.16
- D) \$86.39

Answer: <https://biology-forums.com/index.php?topic=814971>

Question 1030

The internal rate of return (IRR) for project Beta is closest to:

- A) 25.0%
- B) 22.7%
- C) 24.5%
- D) 22.2%

Answer: <https://biology-forums.com/index.php?topic=815112>

Question 1031

Wyatt Oil is considering drilling a new oil well that is initially expected to produce oil at a rate of 10 million barrels per year. Wyatt has a long-term contract that allows them to sell the oil at a profit of \$2.50 per barrel. The cost of drilling the rig is \$175,000,000. If the rate of oil production from the rig declines by 3% over the year and the discount rate is 9% per year (EAR), then using continuous compounding, the NPV of this new oil well is closest to:

- A) -\$333,333,000
- B) \$28,128,000
- C) \$33,333,000
- D) \$39,340,000

Answer: <https://biology-forums.com/index.php?topic=814961>

Question 1032

NoGrowth industries presently pays an annual dividend of \$1.50 per share and it is expected that these dividend payments will continue indefinitely. If NoGrowth's equity cost of capital is 12%, then the value of a share of NoGrowth's stock is closest to:

- A) \$10.00
- B) \$15.00
- C) \$14.00
- D) \$12.50

Answer: <https://biology-forums.com/index.php?topic=815282>

Question 1033

The alpha for the passive investors is closest to:

- A) -2.4%
- B) -0.9%
- C) 0.0%

D) 3.6%

Answer: <https://biology-forums.com/index.php?topic=815772>

Question 1034

Assume that Omicron uses the entire \$50 million to repurchase shares. The number of shares that Omicron will repurchase is closest to:

- A) 1.0 million
- B) 1.2 million
- C) 1.1 million
- D) 0.9 million

Answer: <https://biology-forums.com/index.php?topic=816164>

Question 1035

In 2000, the effective tax rate for debt holders was closest to:

- A) 61%
- B) 52%
- C) 64%
- D) 40%

Answer: <https://biology-forums.com/index.php?topic=816011>

Question 1036

Cash is a:

- A) long-term asset.
- B) current asset.
- C) current liability.
- D) long-term liability.

Answer: <https://biology-forums.com/index.php?topic=814613>

Question 1037

In an agency problem known as debt overhang, if the company has risky debt outstanding, equity holders will choose to invest only if:

- A) the NPV of the project exceeds a cutoff equal to the relative riskiness of the firm's debt times its debt-equity ratio.
- B) the profitability index of the project exceeds a cutoff equal to the relative riskiness of the firm's debt times its debt-equity ratio.
- C) the NPV of the project is negative.
- D) the debt holders will lose all their money.

Answer: <https://biology-forums.com/index.php?topic=816105>

Question 1038

Which of the following statements regarding the NPV decision rule is FALSE?

- A) Reject projects with a NPV of zero, as accepting them is equivalent to reducing firm value.
- B) When faced with a set of alternatives, choose the one with the highest NPV.
- C) Accept those projects with a positive NPV, as accepting them is equivalent to receiving their NPV in cash today.
- D) Reject those projects with a negative NPV.

Answer: <https://biology-forums.com/index.php?topic=814743>

Question 1039

The effective annual rate for a certificate of deposit that pays 3.9% APR compounded monthly is closest to:

- A) 3.83%
- B) 3.90%
- C) 3.97%
- D) 4.04%

Answer: <https://biology-forums.com/index.php?topic=814903>

Question 1040

The amount of money that your great aunt Matilda originally put in the account is closest to:

- A) \$600
- B) \$800
- C) \$1000
- D) \$1200

Answer: <https://biology-forums.com/index.php?topic=814817>

Question 1041

If Wyatt Oil distributes the \$70 million as a share repurchase, then its debt-to-equity ratio after the share repurchase will be closest to:

- A) 0.9
- B) 1.0
- C) 1.1
- D) 1.4

Answer: <https://biology-forums.com/index.php?topic=816156>

Question 1042

You are considering using the incremental IRR approach to decide between the two mutually exclusive projects A & B. How many potential incremental IRRs could there be?

- A) 3
- B) 0
- C) 2
- D) 1

Answer: <https://biology-forums.com/index.php?topic=815145>

Question 1043

Assume that investors hold Google stock in retirement accounts that are free from personal taxes. If Google were to issue sufficient debt to reduce its taxes by \$1 billion per year permanently, then the amount that Google needs to borrow is closest to:

- A) \$14.25 billion
- B) \$22.00 billion
- C) \$24.50 billion
- D) \$40.75 billion

Answer: <https://biology-forums.com/index.php?topic=815996>

Question 1044

Consider the following equation:

$$P_{\text{retain}} = P_{\text{cum}} \times$$

The term P_{retain} in this equation represents:

- A) the price of the stock if it retains and invests the cash.
- B) the percentage of net income retained or reinvested back into the firm.
- C) the percentage of net income paid out as a cash dividend.
- D) the price of the stock if it retains cash to use in a share repurchase.

Answer: <https://biology-forums.com/index.php?topic=816206>

Question 1045

Which of the following formulas is INCORRECT?

- A) Invoice price = dirty price
- B) Clean price = dirty price - accrued interest
- C) Accrued interest = coupon amount \times
- D) Cash price = clean price + accrued interest

Answer: <https://biology-forums.com/index.php?topic=815001>

Question 1046

California Gold Mining's required return is closest to:

- A) -5%
- B) 13%
- C) 15%
- D) 5%

Answer: <https://biology-forums.com/index.php?topic=815630>

Question 1047

If the risk-free rate is 5% and the expected return of investing in Merck is 11.3%, then the expected return on the market must be:

- A) 8.0%
- B) 10.0%
- C) 10.4%
- D) 12.0%

Answer: <https://biology-forums.com/index.php?topic=815460>

Question 1048

The market capitalization of d'Anconia Copper after this transaction takes place is closest to:

- A) \$800 million
- B) \$900 million
- C) \$1100 million
- D) \$1200 million

Answer: <https://biology-forums.com/index.php?topic=815854>

Question 1049

The unlevered cost of capital for Armadillo Industries is closest to:

- A) 10.3%
- B) 10.0%
- C) 9.5%
- D) 9.9%

Answer: <https://biology-forums.com/index.php?topic=816394>

Question 1050

Which of the following statements is FALSE?

- A) The relationship between the investment term and the interest rate is called the term structure of interest rates.
- B) Real interest rates indicate the rate at which your money will grow if invested for a certain period.
- C) The yield curve is a potential leading indicator of future economic growth.
- D) The shape of the yield curve will be strongly influenced by interest rate expectations.

Answer: <https://biology-forums.com/index.php?topic=814929>

Question 1051

The profitability index for this project is closest to:

- A) .44
- B) .26
- C) 0.39
- D) .34

Answer: <https://biology-forums.com/index.php?topic=815163>

Question 1052

Luther's weighted average cost of capital is closest to:

- A) 9.8%
- B) 10.8%
- C) 11.5%
- D) 13.0%

Answer: <https://biology-forums.com/index.php?topic=815737>

Question 1053

Luther's EBIT coverage ratio for the year ending December 31, 2008 is closest to:

- A) 1.64
- B) 1.78
- C) 1.98
- D) 2.19

Answer: <https://biology-forums.com/index.php?topic=814678>

Question 1054

The Internal Rate of return of this project is closest to:

- A) 10.2%
- B) 12.2%
- C) 14.2%
- D) 16.2%

Answer: <https://biology-forums.com/index.php?topic=814888>

Question 1055

If Flagstaff currently maintains a .5 debt to equity ratio, then Flagstaff's after-tax WACC is closest to:

- A) 10.00%
- B) 10.25%
- C) 9.50%
- D) 8.75%

Answer: <https://biology-forums.com/index.php?topic=815970>

Question 1056

Luther Corporation's stock price is \$39 per share and the company has 20 million shares outstanding. Its Market value Debt-Equity Ratio for 2009 is closest to:

- A) 2.29
- B) 0.37
- C) 1.89
- D) 0.31

Answer: <https://biology-forums.com/index.php?topic=814701>

Question 1057

The highest effective rate of return you could earn on any of these investments is closest to:

- A) 6.250%
- B) 6.267%
- C) 6.295%
- D) 6.310%

Answer: <https://biology-forums.com/index.php?topic=814899>

Question 1058

Rose's unlevered cost of capital is closest to:

- A) 8.0%
- B) 7.5%
- C) 7.0%
- D) 9.0%

Answer: <https://biology-forums.com/index.php?topic=816370>

Question 1059

Using the data provided in the table, calculate the average annual return, the variance of the annual returns, and the standard deviation of the average returns for Stock B from 2000 to 2009.

Answer: <https://biology-forums.com/index.php?topic=815405>

Question 1060

Consider the following equation:

$$E + D = U = A$$

The E in this equation represents:

- A) the value of the firm's equity.
- B) the value of the firm's debt.
- C) the value of the firm's unlevered equity.
- D) the market value of the firm's assets.

Answer: <https://biology-forums.com/index.php?topic=815887>

Question 1061

Which of the following statements regarding the timeline is FALSE?

- A) Date 1 is one year from now.
- B) The \$5000 below date 1 is the payment you will receive at the end of the first year.
- C) The \$5000 below date 2 is the payment you will receive at the beginning of the second year.
- D) Date 0 represents today.

Answer: <https://biology-forums.com/index.php?topic=814802>

Question 1062

Growing Real Fast Company (GRF) is expected to have a 25 percent growth rate for the next four years (effecting D1, D2, D3, and D4). Beginning in year five, the growth rate is expected to drop to 7 percent per year and last indefinitely. If GRF just paid a \$2.00 dividend and the appropriate discount rate is 15 percent, then what is the value of a share of GRE?

Answer: <https://biology-forums.com/index.php?topic=815292>

Question 1063

Luther Corporation's cash ratio for 2009 is closest to:

- A) 1.19
- B) 10.6
- C) 0.44
- D) 0.41

Answer: <https://biology-forums.com/index.php?topic=814697>

Question 1064

The Principal-Agent Problem arises:

- A) because managers have little incentive to work in the interest of shareholders when this means working against their own self-interest.
- B) because of the separation of ownership and control in a corporation.
- C) Both A and B
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814587>

Question 1065

What is the efficient frontier and how does it change when more stocks are used to construct portfolios?

Answer: <https://biology-forums.com/index.php?topic=815529>

Question 1066

Suppose you are a shareholder in Galt industries holding 600 shares, and you disagree with this decision to delever the firm. You can undo the effect of this decision by:

- A) Borrowing \$6000 and buying 240 shares of stock
- B) Selling 240 shares of stock and lending \$6000
- C) Borrowing \$9000 and buying 360 shares of stock
- D) Selling 360 shares of stock and lending \$9000

Answer: <https://biology-forums.com/index.php?topic=815852>

Question 1067

Which of the following statements is FALSE?

- A) Rather than relying on the efficiency of a single portfolio (such as the market), multifactor models rely on the weaker condition that an efficient portfolio can be constructed from a collection of well-diversified portfolios or factors.
- B) A positive alpha in a single factor model means that the portfolios that implement the trading strategy capture risk that is not captured by the market portfolio.
- C) Multifactor models have a distinct advantage over single-factor models in that it is much easier to identify a collection of portfolios that captures systematic risk than just a single portfolio.
- D) Trading strategies based on market capitalization, book-to-market ratios, and momentum have been developed that appear to have zero alphas.

Answer: <https://biology-forums.com/index.php?topic=815816>

Question 1068

The expected return for Alpha Corporation is closest to:

- A) 6.67%
- B) 5.00%
- C) 10%
- D) 0.00%

Answer: <https://biology-forums.com/index.php?topic=815374>

Question 1069

The incremental unlevered net income of the Shepard Industries project in year one is closest to:

- A) \$510
- B) \$415
- C) \$600
- D) \$355

Answer: <https://biology-forums.com/index.php?topic=815221>

Question 1070

Net of capital gains taxes, the amount the total value of d'Anconia Copper shares increase is closest to:

- A) \$5.5 million
- B) \$6.5 million
- C) \$7.0 million
- D) \$10.0 million

Answer: <https://biology-forums.com/index.php?topic=816199>

Question 1071

The NPV of Larry's three movie Larry Boy offer is closest to:

- A) 3.5 million
- B) -1.6 million
- C) 1.6 million
- D) -1.0 million

Answer: <https://biology-forums.com/index.php?topic=815095>

Question 1072

Which of the following statements is FALSE?

- A) As long as the firm's choice of securities does not change the cash flows generated by its assets, the capital structure decision will not change the total value of the firm or the amount of capital it can raise.
- B) If securities are fairly priced, then buying or selling securities has an NPV of zero and, therefore, should not change the value of a firm.
- C) The future repayments that the firm must make on its debt are equal in value to the amount of the loan it receives up front.
- D) An investor who would like more leverage than the firm has chosen can lend and add leverage to his or her own portfolio.

Answer: <https://biology-forums.com/index.php?topic=815862>

Question 1073

Which of the following equations is INCORRECT?

- A) $-1 = APR$
- B) Equivalent n-Period Discount Rate = $(1 + r)^n - 1$
- C) $1 + EAR =$
- D) Interest Rate per Compounding Period =

Answer: <https://biology-forums.com/index.php?topic=814893>

Question 1074

A firm's net investment is:

- A) its capital expenditures in excess of depreciation.
- B) its free cash flow net of increases in working capital.
- C) its enterprise value in excess of debt owed.
- D) the market value of equity plus debt.

Answer: <https://biology-forums.com/index.php?topic=815335>

Question 1075

Which of the following statements is FALSE?

- A) To determine the project's debt capacity for the interest tax shield calculation, we need to know the value of the project.
- B) To compute the present value of the interest tax shield, we need to determine the appropriate cost of capital.
- C) Because we don't value the tax shield separately, with the APV method we need to include the benefit of the tax shield in the discount rate as we do in the WACC method.
- D) A target leverage ratio means that the firm adjusts its debt proportionally to the project's value or its cash flows.

Answer: <https://biology-forums.com/index.php?topic=816267>

Question 1076

If the current rate of interest is 8% APR, then the future value of an investment that pays \$250 per quarter and lasts 20 years is closest to:

- A) \$18,519
- B) \$48,443
- C) \$9936
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=814878>

Question 1077

The unlevered value of Omicron's new project is closest to:

- A) \$96
- B) \$124

C) \$126

D) \$25

Answer: <https://biology-forums.com/index.php?topic=816275>

Question 1078

Which of the following statements is FALSE?

A) Whether paid by the firm or its creditors, the indirect costs of bankruptcy increase the value of the assets that the firm's investors will ultimately receive.

B) In addition to the money spent by the firm, the creditors may incur costs during the bankruptcy process.

C) The bankruptcy code is designed to provide an orderly process for settling a firm's debts.

D) To ensure that their rights and interests are respected, and to assist in valuing their claims in a proposed reorganization, creditors may seek separate legal representation and professional advice.

Answer: <https://biology-forums.com/index.php?topic=816050>

Question 1079

A project that you are considering today is expected to provide benefits worth \$168,000 in one year. If the risk-free rate of interest (r_f) is 4.5%, then the value of the benefits of this project today are closest to:

A) \$160,440

B) \$160,766

C) \$168,000

D) \$175,560

Answer: <https://biology-forums.com/index.php?topic=814724>

Question 1080

The market value for Bernard is closest to:

A) \$12.0 million

B) \$10 million

C) \$15.0 million

D) \$12.5 million

Answer: <https://biology-forums.com/index.php?topic=815795>

Question 1081

Following the borrowing of \$12 million and subsequent share repurchase, the equity cost of capital for RC is closest to:

A) 12%

B) 9%

C) 11.0%

D) 10%

Answer: <https://biology-forums.com/index.php?topic=815920>

Question 1082

Which of the following statements is FALSE?

A) Given a forecast of future interest payments, we can determine the interest tax shield and compute its present value by discounting it at a rate that corresponds to its risk.

B) The total value of the unlevered firm exceeds the value of the firm with leverage due to the present value of the tax savings from debt.

C) To compute the increase in the firm's total value associated with the interest tax shield, we need to forecast a firm's debt and its interest payments.

D) There is an important tax advantage to the use of debt financing.

Answer: <https://biology-forums.com/index.php?topic=815959>

Question 1083

Assuming Luther issues a 25% stock dividend, then Luther's new share price is closest to:

A) \$24.00

B) \$30.00

C) \$16.00

D) \$32.00

Answer: <https://biology-forums.com/index.php?topic=816234>

Question 1084

How much will each semiannual coupon payment be?

A) \$60

B) \$40

C) \$120

D) \$80

Answer: <https://biology-forums.com/index.php?topic=814979>

Question 1085

Which of the following is NOT a situation where a trader is able to identify positive NPV trading opportunities in the securities markets?

A) An investor who has access to information known only to a few investors.

B) An investor who has lower trading costs than other market participants.

C) An investor who gets up really early in the morning so he can be the first to read and act upon the information contained in that day's Wall Street Journal.

D) An investor who has expertise in a highly complicated area for which a company has just released information.

Answer: <https://biology-forums.com/index.php?topic=815355>

Question 1086

Galt's WACC is closest to:

A) 6.0%

B) 9.6%

C) 10.3%

D) 10.7%

Answer: <https://biology-forums.com/index.php?topic=816332>

Question 1087

Which of the following statements is FALSE?

A) The plot of the relationship between the investment risk and the interest rate is call the yield curve.

B) Each of the last six recessions in the United States was preceded by a period with an inverted yield curve.

C) The nominal interest rate does not represent the increase in purchasing power that will result from investing.

D) A risk-free cash flow received in two years should be discounted at the two-year interest rate.

Answer: <https://biology-forums.com/index.php?topic=814931>

Question 1088

The amount that Ford Motor Company will owe in taxes next year with the launch of the new SUV is closest to:

A) \$13.5 million

B) \$31.5 million

C) \$56.0 million

D) \$24.0 million

Answer: <https://biology-forums.com/index.php?topic=815187>

Question 1089

Assume that the ETF is trading for \$366.00, what (if any) arbitrage opportunity exists? What (if any) trades would you make?

Answer: <https://biology-forums.com/index.php?topic=814780>

Question 1090

Assuming that costs continue to increase an average of 4% per year, tuition and other costs for one year for this student in 18 years when she enters college will be closest to:

A) \$12,500

B) \$21,500

C) \$320,568

D) \$25,323

Answer: <https://biology-forums.com/index.php?topic=814846>

Question 1091

Show mathematically that the stock price of Rockwood does not depend on whether they issue new stock or borrow to fund their expansion.

Answer: <https://biology-forums.com/index.php?topic=815925>

Question 1092

Consider the following timeline:

If the current market rate of interest is 10%, then the future value of this timeline is closest to:

A) \$666

B) \$500

C) \$605

D) \$650

Answer: <https://biology-forums.com/index.php?topic=814821>

Question 1093

i) If KD can repurchase its existing shares at \$20 per share, what will the new share price be after the transaction?

A) \$22.35

B) \$22.00

C) \$22.65

D) \$23.50

Answer: <https://biology-forums.com/index.php?topic=815992>

Question 1094

Which of the following firms is likely to maintain low levels of debt?

A) An electric utility

B) A tobacco company

C) An Internet firm

D) A mature restaurant chain

Answer: <https://biology-forums.com/index.php?topic=816127>

Question 1095

A sole proprietorship is owned by:

A) one person.

B) two of more persons.

C) shareholders.

D) bankers.

Answer: <https://biology-forums.com/index.php?topic=814569>

Question 1096

The value of Galt's equity using the WACC method is closest to:

A) \$150 million

B) \$180 million

C) \$230 million

D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816428>

Question 1097

Assume that you are an investor with the disposition effect and you bought each of these stocks in January. Suppose that it is currently the end of June, which stocks are you most inclined to sell?

1. Taggart Transcontinental

2. Rearden Metal

3. Wyatt Oil

4. Nielson Motors

A) 1 only

B) 1 and 3 only

C) 2 only

D) 1, 2, and 3 only

Answer: <https://biology-forums.com/index.php?topic=815764>

Question 1098

Calculate the covariance between Stock Y's and Stock Z's returns .

Answer: <https://biology-forums.com/index.php?topic=815503>

Question 1099

The interest rate tax shield for Kroger in 2005 is closest to:

A) \$362 million

B) \$36 million

C) \$102 million

D) \$195 million

Answer: <https://biology-forums.com/index.php?topic=815935>

Question 1100

Monsters Inc. is a utility company that recently paid a common stock dividend of \$2.35 per share. Determine the current price of a share of Monsters' common stock if its divided growth rate is expected to remain at 7 percent per year indefinitely and its equity cost of capital is 12 percent.

Answer: <https://biology-forums.com/index.php?topic=815290>

Question 1101

If Nielson Motors invests in only those projects which are beneficial to the stockholders, then the total debt overhang associated with accepting these project(s) is closest to:

- A) \$22.5 million
- B) \$36.0 million
- C) \$38.0 million
- D) \$57.5 million

Answer: <https://biology-forums.com/index.php?topic=816091>

Question 1102

What is the NPV of this project if the film maker invests his own money and does not issue the new security? What is the NPV if the film maker issues the new security?

- A) \$1.7 million; \$1.7 million
- B) \$1.7 million; \$2.7 million
- C) \$2.7 million; \$1.7 million
- D) \$2.7 million; \$2.7 million

Answer: <https://biology-forums.com/index.php?topic=814770>

Question 1103

Calculate the total Free Cash Flows for each of the three years for the Sisyphian Corporation's new project.

Answer: <https://biology-forums.com/index.php?topic=815232>

Question 1104

Nielson Motors plans to issue 10-year bonds that it believes will have an BBB rating. Suppose AAA bonds with the same maturity have a 3.5% yield. Assume that the market risk premium is 5% and the expected loss rate in the event of default on the bonds is 60%. The yield that these bonds will have to pay during a recession is closest to:

- A) 3.50%
- B) 3.75%
- C) 4.00%
- D) 5.50%

Answer: <https://biology-forums.com/index.php?topic=815701>

Question 1105

Which of the following statements is FALSE?

- A) The firm deducts a fraction of the investments in plant, property, and equipment each year as depreciation.
- B) If securities are fairly priced, the net present value of a fixed set of cash flows is independent of how those cash flows are financed.
- C) Sunk cost fallacy is a term used to describe the tendency of people to ignore sunk costs in capital budgeting analysis.
- D) A good rule to remember is that if our decision does not affect a cash flow then the cash flow should not affect our decision.

Answer: <https://biology-forums.com/index.php?topic=815177>

Question 1106

The required net working capital in the first year for the Sisyphian Corporation's project is closest to:

- A) \$3600
- B) \$3960
- C) \$2880
- D) \$5400

Answer: <https://biology-forums.com/index.php?topic=815212>

Question 1107

Forward interest rates:

- A) accurately predict future spots rates because of the law of one price.
- B) tend not to be good predictors of future spot rates.
- C) tend to be biased downward as predictors of future spot rates when the yield curve is upward sloping.

D) tend to be biased upward as predictors of future spot rates when the yield curve is downward sloping.

Answer: <https://biology-forums.com/index.php?topic=815072>

Question 1108

The free cash flow for the last year of Epiphany's project is closest to:

- A) \$53,000
- B) \$38,000
- C) \$35,000
- D) \$43,000

Answer: <https://biology-forums.com/index.php?topic=815228>

Question 1109

Luther's Operating Margin for the year ending December 31, 2008 is closest to:

- A) 0.5%
- B) 0.7%
- C) 5.4%
- D) 6.8%

Answer: <https://biology-forums.com/index.php?topic=814669>

Question 1110

The variance on a portfolio that is made up of equal investments in Stock X and Stock Y is closest to:

- A) 0.12
- B) 0.10
- C) 0.69
- D) 0.29

Answer: <https://biology-forums.com/index.php?topic=815496>

Question 1111

If Flagstaff currently maintains a debt to equity ratio of 1, then Flagstaff's after-tax WACC is closest to:

- A) 10.25%
- B) 10.00%
- C) 9.50%
- D) 8.75%

Answer: <https://biology-forums.com/index.php?topic=815975>

Question 1112

Which of the following statements is FALSE?

- A) If the CAPM correctly computes the risk premium, investors would stop investing only when they expected the alpha of an investment strategy to be negative.
- B) If the CAPM correctly computes the risk premium, an investment opportunity with a positive alpha is a positive NPV investment opportunity.
- C) If the CAPM correctly computes the risk premium, investors should flock to invest in positive alpha stocks.
- D) Anyone can implement a momentum trading strategy and therefore generate a positive investment opportunity.

Answer: <https://biology-forums.com/index.php?topic=815800>

Question 1113

Trucks R' Us has a market capitalization of \$142 billion, \$78 billion in BB rated debt, and \$10 billion in cash. If Trucks R' Us' equity beta is 1.68, then their underlying asset beta is closest to:

- A) 1.00
- B) 1.20
- C) 1.32
- D) 1.48

Answer: <https://biology-forums.com/index.php?topic=815710>

Question 1114

Which of the following statements is FALSE?

- A) The money taken in by the firm as a result of the share issue exactly offsets the dilution of the shares.
- B) Most analysts prefer to use performance measures and valuation multiples that are based on the firm's earnings before interest has been deducted.
- C) Because the firm's earnings per share and price-earnings ratio are affected by leverage implies that we can always reliably compare these measures across firms with different capital structures.
- D) In general, as long as the firm sells the new shares of equity at a fair price, there will be no gain or loss to shareholders associated with the equity

issue itself.

Answer: <https://biology-forums.com/index.php?topic=815916>

Question 1115

You have an investment opportunity in Germany that requires an investment of \$250,000 today and will produce a cash flow of €208,650 in one year with no risk. Suppose the risk-free rate of interest in Germany is 6% and the current competitive exchange rate is €0.78 to \$1.00. What is the NPV of this project? Would you take the project?

- A) NPV = 0; No
- B) NPV = -\$2358; No
- C) NPV = \$2358; Yes
- D) NPV = \$13,650; Yes

Answer: <https://biology-forums.com/index.php?topic=814748>

Question 1116

California Gold Mining's beta with the market is closest to:

- A) 0.9
- B) 1.25
- C) -0.9
- D) -1.25

Answer: <https://biology-forums.com/index.php?topic=815594>

Question 1117

Suppose that the managers at Rearden Metal will engage in empire building unless that behavior increases the likelihood of bankruptcy. If Rearden has \$190 million in debt due in one year, then the expected value of Rearden's assets is closest to:

- A) \$265 million
- B) \$280 million
- C) \$295 million
- D) \$300 million

Answer: <https://biology-forums.com/index.php?topic=816122>

Question 1118

The incremental EBIT for the Shepard Industries project in year two is closest to:

- A) \$415
- B) \$875
- C) \$595
- D) \$510

Answer: <https://biology-forums.com/index.php?topic=815220>

Question 1119

After the recapitalization, the total value of KD as a levered firm is closest to:

- A) \$470 million
- B) \$730 million
- C) \$670 million
- D) \$530 million

Answer: <https://biology-forums.com/index.php?topic=815990>

Question 1120

Which of the following statements is FALSE?

- A) There are two potential sources of cash flows from owning a stock.
- B) An investor will be willing to pay a price today for a share of stock up to the point that this transaction has a zero NPV.
- C) An investor might generate cash by choosing to sell the shares at some future date.
- D) Because the cash flows from stock are known with certainty, we can discount them using the risk-free interest rate.

Answer: <https://biology-forums.com/index.php?topic=815293>

Question 1121

Which of the following statements is TRUE?

- A) Prices of bonds with lower durations are more sensitive to interest rate changes.
- B) If a bond's yield to maturity exceeds its coupon rate, the bond trades at a premium.
- C) Bonds with higher coupon rates are more sensitive to interest rate changes.
- D) If a bond's yield to maturity is less than its coupon rate, the bond trades at a premium.

Answer: <https://biology-forums.com/index.php?topic=815003>

Question 1122

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$125 million face value due next year. The initial value of MI's equity is closest to:

- A) \$30 million
- B) \$29 million
- C) \$15 million
- D) \$24 million

Answer: <https://biology-forums.com/index.php?topic=816063>

Question 1123

At an annual interest rate of 7%, the present value of \$5000 received in five years is closest to:

- A) \$3565
- B) \$6750
- C) \$7015
- D) \$7035

Answer: <https://biology-forums.com/index.php?topic=814814>

Question 1124

Which of the following statements is FALSE?

- A) Because very little trading is required to maintain it, an equal-weighted portfolio is called a passive portfolio.
- B) If the number of shares in a value weighted portfolio does not change, but only the prices change, the portfolio will remain value weighted.
- C) The CAPM says that individual investors should hold the market portfolio, a value-weighted portfolio of all risky securities in the market.
- D) A price weighted portfolio holds an equal number of shares of each stock, independent of their size.

Answer: <https://biology-forums.com/index.php?topic=815667>

Question 1125

The expected return on the market portfolio is closest to:

- A) 0%
- B) 4%
- C) 8%
- D) 16%

Answer: <https://biology-forums.com/index.php?topic=815442>

Question 1126

If the discount rate is 15%, the alternative with the lowest NPV is:

- A) #1 with an NPV of approximately \$350,000
- B) #2 with an NPV of approximately \$341,300
- C) #3 with an NPV of approximately \$329,570
- D) #2 with an NPV of approximately \$400,000
- E) None of the above

Answer: <https://biology-forums.com/index.php?topic=814741>

Question 1127

Which of the following statements is FALSE?

- A) One difficulty when trying to estimate beta for a security is that beta depends on the correlation and volatilities of the security's and market's returns in the future.
- B) It is common practice to estimate beta based on the expectations of future correlations and volatilities.
- C) One difficulty when trying to estimate beta for a security is that beta depends on investors' expectations of the correlation and volatilities of the security's and market's returns.
- D) Securities that tend to move less than the market have betas below 1.

Answer: <https://biology-forums.com/index.php?topic=815689>

Question 1128

A tax free municipal bond pays an effective annual rate of 7.2%. If your tax rate is 30%, then the effective annual rate that a comparable corporate bond would have to offer you to earn an equivalent after tax return would be closest to:

- A) 5.0%
- B) 7.2%
- C) 9.4%

D) 10.3%

Answer: <https://biology-forums.com/index.php?topic=814958>

Question 1129

Suppose a risky security pays an average cash flow of \$100 in one year. The risk-free rate is 5%, and the expected return on the market index is 13%. If the returns on this security are high when the economy is strong and low when the economy is weak, but the returns vary by only half as much as the market index, what risk premium is appropriate for this security?

- A) 4%
- B) 6.5%
- C) 9%
- D) 11%

Answer: <https://biology-forums.com/index.php?topic=814788>

Question 1130

If Rockwood finances their expansion by issuing \$100 million in debt at 5%, what will Rockwood's cost of equity capital be?

- A) 11.25%
- B) 10.70%
- C) 12.50%
- D) 12.00%

Answer: <https://biology-forums.com/index.php?topic=815924>

Question 1131

Consider a zero-coupon bond with a \$1000 face value and 10 years left until maturity. If the YTM of this bond is 10.4%, then the price of this bond is closest to:

- A) \$1000
- B) \$602
- C) \$1040
- D) \$372

Answer: <https://biology-forums.com/index.php?topic=814977>

Question 1132

Assume that Rockwood is not able to repurchase shares prior to the market becoming aware of the new information regarding Rockwood's true value. After the release of the new information regarding the true value of Rockwood, and following the repurchase, the firm's share price is closest to:

- A) \$30.00
- B) \$30.60
- C) \$28.75
- D) \$31.50

Answer: <https://biology-forums.com/index.php?topic=816228>

Question 1133

The unlevered beta for Nod is closest to:

- A) 1.00
- B) 0.90
- C) 0.95
- D) 1.10

Answer: <https://biology-forums.com/index.php?topic=815904>

Question 1134

Suppose that MI has zero-coupon debt with a \$125 million face value due next year. The initial value of MI's equity is closest to:

- A) \$30 million
- B) \$15 million
- C) \$29 million
- D) \$24 million

Answer: <https://biology-forums.com/index.php?topic=816034>

Question 1135

Which of the following questions is FALSE?

- A) With perfect capital markets, all securities are fairly priced and issuing securities is a zero-NPV transaction.
- B) The fees associated with the financing of the project are independent of the project's required cash flows and should be ignored when calculating the NPV of the project.

C) When a firm borrows funds, a mispricing scenario arises if the interest rate charged differs from the rate that is appropriate given the actual risk of the loan.
D) The WACC, APV, and FTE methods determine the value of an investment incorporating the tax shields associated with leverage.
Answer: <https://biology-forums.com/index.php?topic=816418>

Question 1136

You are considering investing \$600,000 in a new automated inventory system that will provide after-tax cost savings of \$50,000 next year. These cost savings are expected to grow at the same rate as sales. If sales are expected to grow at 5% per year and your cost of capital is 10%, then what is the NPV of the automated inventory system?
A) \$400,000
B) \$500,000
C) -\$100,000
D) \$1,000,000
Answer: <https://biology-forums.com/index.php?topic=815231>

Question 1137

Which of the following statements is FALSE?
A) Unlike taxes on capital gains or interest income, which are paid annually, taxes on dividends are paid only at the time the investor sells the stock.
B) Deferring the payment of capital gains taxes lowers the present value of the taxes, which can be interpreted as a lower effective capital gains tax rate.
C) Investors with longer holding periods or with accrued losses face a lower tax rate on equity income, decreasing the effective tax advantage of debt.
D) Investors with accrued losses that they can use to offset gains face a zero effective capital gains tax rate.
Answer: <https://biology-forums.com/index.php?topic=816007>

Question 1138

The free cash flow to the firm in 2010 is closest to:
A) 10,684
B) 11,559
C) 23,698
D) 26,394
Answer: <https://biology-forums.com/index.php?topic=816356>

Question 1139

Which of the following statements is FALSE?
A) We should be suspicious of beta estimates that are extreme relative to industry norms.
B) When using historical data, there is always the possibility of estimation error.
C) Evidence suggests that betas tend to revert toward zero over time.
D) For stocks, common practice is to use at least two years of weekly return data or five years of monthly return data when estimating beta.
Answer: <https://biology-forums.com/index.php?topic=815741>

Question 1140

Boeing's stock price is closest to:
A) \$18.25
B) \$36.70
C) \$54.80
D) \$63.40
Answer: <https://biology-forums.com/index.php?topic=815658>

Question 1141

Suppose a five-year bond with a 7% coupon rate and semiannual compounding is trading for a price of \$951.58. Expressed as an APR with semiannual compounding, this bond's yield to maturity (YTM) is closest to:
A) 7.0%
B) 7.5%
C) 7.8%
D) 8.2%
Answer: <https://biology-forums.com/index.php?topic=814973>

Question 1142

Assuming that you have made all of the first 24 payments on time, then how much interest have you paid over the first two years of your loan?
Answer: <https://biology-forums.com/index.php?topic=814921>

Question 1143

Nielson's share price is closest to:

- A) \$20.80
- B) \$24.40
- C) \$27.50
- D) \$31.20

Answer: <https://biology-forums.com/index.php?topic=816293>

Question 1144

Suppose that to raise the funds for the initial investment the firm borrows \$40,000 at the risk free rate and issues new equity to cover the remainder. In this situation, the cash flow that equity holders will receive in one year in a strong economy is closest to:

- A) \$117,000
- B) \$75,000
- C) \$50,000
- D) \$0

Answer: <https://biology-forums.com/index.php?topic=815843>

Question 1145

Suppose that if GSI drops the price on the Glucoscan 3000 immediately, it can increase sales over the next year by 30% to 130,000 units. The incremental impact of this price drop on the firms EBIT is closest to:

- A) a decline of 1.5 million.
- B) an increase of 1.5 million.
- C) a decline of 2.4 million.
- D) an increase of 2.4 million.

Answer: <https://biology-forums.com/index.php?topic=815190>

Question 1146

The Sharpe Ratio for Wyatt Oil is closest to:

- A) 0.40
- B) 0.48
- C) 0.56
- D) 0.80

Answer: <https://biology-forums.com/index.php?topic=815573>

Question 1147

If your income tax rate is 30%, then the after-tax EAR for your home equity loan is closest to:

- A) 6.0%
- B) 5.9%
- C) 8.6%
- D) 5.8%

Answer: <https://biology-forums.com/index.php?topic=814953>

Question 1148

The value of Luther with leverage is closest to:

- A) \$315 million
- B) \$340 million
- C) \$205 million
- D) \$300 million

Answer: <https://biology-forums.com/index.php?topic=816083>

Question 1149

Using the income statement above and the following information:

Year 2006 2007 2008 2009 2010

Increases in NWC 2250 3000 3250 3600 4000

Capital Expenditures 5000 5000 20,000 15,000 8000

Net Borrowing 0 0 15,000 5000 0

Calculate Ideko's Free Cash Flow to the Firm and Free Cash Flow to Equity in 2009.

Answer: <https://biology-forums.com/index.php?topic=816462>

Question 1150

Which of the following statements regarding timelines is FALSE?

- A) Timelines are an important first step in organizing and then solving a financial problem.
- B) We refer to a series of cash flows lasting several periods as a stream of cash flows.
- C) Not every stream of cash flows can be represented on a timeline.
- D) A timeline is a linear representation of the timing of the (expected) cash flows.

Answer: <https://biology-forums.com/index.php?topic=814801>

Question 1151

Which of the following statements is FALSE?

- A) The variance of a portfolio is equal to the weighted average correlation of each stock within the portfolio.
- B) The variance of a portfolio is equal to the sum of the covariances of the returns of all pairs of stocks in the portfolio multiplied by each of their portfolio weights.
- C) The variance of a portfolio is equal to the weighted average covariances of each stock within the portfolio.
- D) The volatility declines as the number of stocks in a portfolio grows.

Answer: <https://biology-forums.com/index.php?topic=815507>

Question 1152

If your new strip mall will have 16,000 square feet of retail space available to be leased, to which businesses should you lease and why?

Answer: <https://biology-forums.com/index.php?topic=815165>

Question 1153

The value of Luther without leverage is closest to:

- A) \$315 million
- B) \$300 million
- C) \$205 million
- D) \$340 million

Answer: <https://biology-forums.com/index.php?topic=816082>

Question 1154

Assuming you currently have 10,000 Bbls of WTI crude, the added benefit (cost) to you if you were to sell the 10,000 Bbls of WTI crude and use the proceeds to purchase and refine ANS crude is closest to:

- A) (\$1400)
- B) \$1400
- C) (\$3908)
- D) \$3908

Answer: <https://biology-forums.com/index.php?topic=814714>

Question 1155

Assume that you own 4000 shares of Omicron stock and that Omicron uses the entire \$50 million to repurchase shares. Suppose you are unhappy with Omicron's decision and would have preferred that Omicron used the excess cash to pay a special dividend. Detail exactly how you could create a homemade dividend that will provide you with the same combination of cash and stock that you would have received if Omicron paid the special dividend.

Answer: <https://biology-forums.com/index.php?topic=816169>

Question 1156

IECE's Return on Assets (ROA) is:

- A) 5.0%
- B) 8.5%
- C) 7.5%
- D) 15.0%

Answer: <https://biology-forums.com/index.php?topic=814667>

Question 1157

Which of the following statements is FALSE?

- A) Many projects use a resource that the company already owns.
- B) When evaluating a capital budgeting decision, we generally include interest expense.
- C) Only include as incremental expenses in your capital budgeting analysis the additional overhead expenses that arise because of the decision to

take on the project.

D) As a practical matter, to derive the forecasted cash flows of a project, financial managers often begin by forecasting earnings.

Answer: <https://biology-forums.com/index.php?topic=815180>

Question 1158

The market value of Luther's non-cash assets is closest to:

- A) \$20 billion
- B) \$19 billion
- C) \$25 billion
- D) \$24 billion

Answer: <https://biology-forums.com/index.php?topic=815871>

Question 1159

In an agency problem known as asset substitution, the agency cost is paid by:

- A) the debt holders, since if the risky project is not successful debt holders will lose all their money.
- B) the debt holders, since if the risky project is successful debt holders will receive less money.
- C) the equity holders, since the strategy has a negative expected payoff.
- D) the equity holders, since they will lose all their money whether or not the project is successful.

Answer: <https://biology-forums.com/index.php?topic=816104>

Question 1160

IF FBNA increases leverage so that its interest expense rises by \$1 million, then the amount its net income will change is closest to:

- A) -\$400,000
- B) -\$600,000
- C) \$400,000
- D) \$600,000

Answer: <https://biology-forums.com/index.php?topic=815946>

Question 1161

Which of the following statements is FALSE?

- A) In the flow-to-equity valuation method, the cash flows to equity holders are then discounted using the weighted average cost of capital.
- B) In the WACC and APV methods, we value a project based on its free cash flow, which is computed ignoring interest and debt payments.
- C) In the flow-to-equity (FTE) valuation method, we explicitly calculate the free cash flow available to equity holders taking into account all payments to and from debt holders.
- D) The first step in the FTE method is to determine the project's free cash flow to equity (FCFE).

Answer: <https://biology-forums.com/index.php?topic=816377>

Question 1162

Suppose that you have invested \$30,000 in the market portfolio. Then the number of shares of Wyatt Oil that you hold is closest to:

- A) 150 shares
- B) 300 shares
- C) 350 shares
- D) 450 shares

Answer: <https://biology-forums.com/index.php?topic=815654>

Question 1163

Suppose that to fund this new project, Aardvark borrows \$120 with the principal to be paid in three equal installments at the end each year. The present value of Aardvark's interest tax shield is closest to:

- A) \$5.15
- B) \$5.00
- C) \$5.90
- D) \$5.25

Answer: <https://biology-forums.com/index.php?topic=816314>

Question 1164

What range for the market value of equity for Ideko is implied by the range of EV/Sales multiples for the comparable firms if Ideko holds \$6.5 million of cash in excess of its working capital needs?

Answer: <https://biology-forums.com/index.php?topic=816439>

Question 1165

Which of the following statements is FALSE?

- A) The incremental IRR investment rule applies the IRR rule to the difference between the cash flows of the two mutually exclusive alternatives.
- B) When a manager must choose among mutually exclusive investments, the NPV rule provides a straightforward answer.
- C) The likelihood of multiple IRRs is greater with the regular IRR rule than with the incremental IRR rule.
- D) Problems can arise using the IRR method when the mutually exclusive investments have differences in scale.

Answer: <https://biology-forums.com/index.php?topic=815134>

Question 1166

Which of the following statements is FALSE?

- A) The relative proportions of debt, equity, and other securities that a firm has outstanding constitute its capital structure.
- B) The most common choices are financing through equity alone and financing through a combination of debt and equity.
- C) The project's NPV represents the value to the new investors of the firm created by the project.
- D) When corporations raise funds from outside investors, they must choose which type of security to issue.

Answer: <https://biology-forums.com/index.php?topic=815831>

Question 1167

If the risk-free interest rate is 10%, then the NPV for Eenie is closest to:

- A) -3.64
- B) 2.73
- C) 3.18
- D) 3.64

Answer: <https://biology-forums.com/index.php?topic=814749>

Question 1168

An American Depository Receipt (ADR) is a security issued by a U.S. bank and traded on a U.S. stock exchange that represents a specific number of shares of a foreign stock. Siemens AG has an ADR that trades on the NYSE and is equivalent to one share of Siemens AG trading on the Frankfurt Stock Exchange in Germany. If Siemens trades for \$95.19 on the NYSE and for €64.10 on the Frankfurt Stock Exchange, then under the law of one price, the current exchange rate is closest to:

- A) \$0.6744/€
- B) €0.6734/\$
- C) €1.4850/\$
- D) \$1.5274/€

Answer: <https://biology-forums.com/index.php?topic=814777>

Question 1169

For the year ending December 31, 2009 Luther's cash flow from financing activities is:

Answer: <https://biology-forums.com/index.php?topic=814654>

Question 1170

What is the excess return for corporate bonds?

- A) 2.7%
- B) 1.3%
- C) -5.7%
- D) 0%

Answer: <https://biology-forums.com/index.php?topic=815412>

Question 1171

The term β measures the sensitivity of the securities returns to:

- A) momentum.
- B) the overall market.
- C) book-to-market.
- D) size.

Answer: <https://biology-forums.com/index.php?topic=815820>

Question 1172

Which of the following statements is FALSE?

- A) The most important example of non-tradeable wealth is human capital.

- B) If investors have a significant amount of non-tradeable wealth, this wealth will be an important part of their portfolios, but will not be part of the market portfolio of tradeable securities.
- C) If the entire portfolio of investments is efficient, then just the tradeable part of the portfolio should be efficient also.
- D) Researchers have found evidence that the presence of human capital can explain at least part of the reason for the inefficiency of the most commonly used market proxies.

Answer: <https://biology-forums.com/index.php?topic=815805>

Question 1173

Taggart Transcontinental has issued at par a zero-coupon bond with a ten-year maturity. Investors believe there is a 10% chance that Taggart Transcontinental will default on these bonds. If they do default, investors expect to receive only 50 cents per dollar they are owed. If investors require an 8% return on their investment in these bonds, then the yield to maturity on these bonds will be closest to (assume annual compounding):

- A) 6.0%
- B) 6.5%
- C) 7.0%
- D) 8.56%

Answer: <https://biology-forums.com/index.php?topic=815050>

Question 1174

The e_i in the regression:

- A) measures the market risk in returns.
- B) measures the deviation from the best fitting line and is zero on average.
- C) measures the sensitivity of the security to market risk.
- D) measures the historical performance of the security relative to the expected return predicted by the SML.

Answer: <https://biology-forums.com/index.php?topic=815693>

Question 1175

Which of the following statements is FALSE?

- A) We can estimate the value of a firm's shares by multiplying its current earnings per share by the average P/E ratio of comparable firms.
- B) For valuation purposes, the trailing P/E ratio is generally preferred, since it is based on actual not expected earnings.
- C) Forward earnings are the expected earnings over the coming 12 months.
- D) Trailing earnings are the earnings over the previous 12 months.

Answer: <https://biology-forums.com/index.php?topic=815340>

Question 1176

Rearden Metal currently has no debt and an equity cost of capital of 14%. Suppose that Rearden decides to increase its leverage and maintain a market debt-to-value ratio of 1/2. Suppose Rearden's debt cost of capital is 8% and its corporate tax rate is 40%. Assuming that Rearden's pre-tax WACC remains constant, then with the addition of leverage its effective after-tax WACC will be closest to:

- A) 10.8%
- B) 12.4%
- C) 12.8%
- D) 13.4%

Answer: <https://biology-forums.com/index.php?topic=815957>

Question 1177

Which of the following statements is FALSE?

- A) Zero-coupon bonds are also called pure discount bonds.
- B) The IRR of an investment opportunity is the discount rate at which the NPV of the investment opportunity is equal to zero.
- C) The yield to maturity for a zero-coupon bond is the return you will earn as an investor from holding the bond to maturity and receiving the promised face value payment.
- D) When prices are quoted in the bond market, they are conventionally quoted in increments of \$1000.

Answer: <https://biology-forums.com/index.php?topic=814970>

Question 1178

Consider a four-year, default-free bond with an annual coupon rate of 4.5% and a face value of \$1000. The YTM on this bond is closest to:

- A) 3.85%
- B) 4.20%
- C) 4.35%
- D) 4.40%

Answer: <https://biology-forums.com/index.php?topic=815033>

Question 1179

The future value at retirement (age 65) of your savings is:

Answer: <https://biology-forums.com/index.php?topic=814868>

Question 1180

Suppose that to fund this new project, Aardvark borrows \$150 with the principal to be paid in three equal installments at the end each year. Calculate the present value of Aardvark's interest tax shield.

Answer: <https://biology-forums.com/index.php?topic=816411>

Question 1181

Assume that you purchased Ford Motor Company stock at the closing price on December 31, 2008 and sold it at the closing price on December 30, 2009. Your realized annual return for the year 2009 is closest to:

- A) -45.1%
- B) -44.5%
- C) -48.5%
- D) -47.3%

Answer: <https://biology-forums.com/index.php?topic=815388>

Question 1182

Which of the following statements is FALSE?

- A) In exchange for bearing systematic risk, investors want to be compensated by earning a higher return.
- B) A key step to measuring systematic risk is finding a portfolio that contains only unsystematic risk.
- C) When evaluating the risk of an investment, an investor will care about its systematic risk, which cannot be eliminated through diversification.
- D) To measure the systematic risk of a stock, we must determine how much of the variability of its return is due to systematic, market-wide risks versus diversifiable, firm specific risks.

Answer: <https://biology-forums.com/index.php?topic=815448>

Question 1183

Which of the following statements is FALSE?

- A) Financial transactions are not sources of value, but merely serve to adjust the timing and risk of the cash flows to best suit the needs of the firm or its investors.
- B) The NPV of trading a security in a normal market is zero.
- C) We cannot separate a firm's investment decision from the decision of how to finance the investment.
- D) In normal markets, trading securities neither creates nor destroys value.

Answer: <https://biology-forums.com/index.php?topic=814766>

Question 1184

Which of the following statements is FALSE?

- A) Leverage decreases the risk of the equity of a firm.
- B) Because the cash flows of the debt and equity sum to the cash flows of the project, by the Law of One Price the combined values of debt and equity must be equal to the cash flows of the project.
- C) Franco Modigliani and Merton Miller argued that with perfect capital markets, the total value of a firm should not depend on its capital structure.
- D) It is inappropriate to discount the cash flows of levered equity at the same discount rate that we use for unlevered equity.

Answer: <https://biology-forums.com/index.php?topic=815835>

Question 1185

Assuming that your capital is constrained, which project should you invest in last?

- A) Project A
- B) Project I
- C) Project D
- D) Project C

Answer: <https://biology-forums.com/index.php?topic=815159>

Question 1186

You are saving for retirement. To live comfortably, you decide that you will need \$2.5 million dollars by the time you are 65. If you assume you are able to do that, and will live 20 more years (until age 85), the amount you can withdraw in each of those years at an interest rate of 5% before your retirement fund is empty is closest to:

- A) \$72,987

- B) \$75,606
- C) \$197,987
- D) \$200,606

Answer: <https://biology-forums.com/index.php?topic=814883>

Question 1187

Suppose that to raise the funds for the initial investment the firm borrows \$40,000 at the risk free rate and issues new equity to cover the remainder. In this situation, the value of the firm's levered equity from the project is closest to:

- A) \$0
- B) \$50,000
- C) \$90,000
- D) \$40,000

Answer: <https://biology-forums.com/index.php?topic=815844>

Question 1188

If the risk-free rate of interest (r_f) is 6%, then you should be indifferent between receiving \$250 in one year or

- A) \$235.85 today.
- B) \$250.00 today.
- C) \$265.00 today.
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814726>

Question 1189

Which of the following statements is FALSE?

- A) When using the incremental IRR rule, you must keep track of which project is the incremental project and ensure that the incremental cash flows are initially positive and then become negative.
- B) Picking one project over another simply because it has a larger IRR can lead to mistakes.
- C) Problems arise using the IRR method when the mutually exclusive investments have differences in scale.
- D) When the risks of two projects are different, only the NPV rule will give a reliable answer.

Answer: <https://biology-forums.com/index.php?topic=815135>

Question 1190

Calculate the present value of the interest tax shield provided by Omicron's new project.

Answer: <https://biology-forums.com/index.php?topic=816282>

Question 1191

The market capitalization for Wal-Mart is closest to:

- A) \$415 Billion
- B) \$276 Billion
- C) \$479 Billion
- D) \$200 Billion

Answer: <https://biology-forums.com/index.php?topic=815672>

Question 1192

The unlevered cost of capital for "Eenie" is closest to:

- A) 6.0%
- B) 5.5%
- C) 7.5%
- D) 6.5%

Answer: <https://biology-forums.com/index.php?topic=816270>

Question 1193

Louie's Truck Repair has assets with a market value of \$8000. The company has three types of securities: equity, \$2500 of debt, and 100 warrants that are fairly priced at \$20 each. What is the value of Louie's equity?

- A) \$5430
- B) \$12,500
- C) \$10,500
- D) \$3500

Answer: <https://biology-forums.com/index.php?topic=815877>

Question 1194

If Ideko's loans will have an interest rate of 6.8%, then the interest expense paid in 2009 is closest to:

- A) \$6800
- B) \$7310
- C) \$7820
- D) \$7990

Answer: <https://biology-forums.com/index.php?topic=816442>

Question 1195

Which of the following statements is FALSE?

- A) Finding the present value and compounding are the same.
- B) A dollar today and a dollar in one year are not equivalent.
- C) If you want to compare or combine cash flows that occur at different points in time, you first need to convert the cash flows into the same units or move them to the same point in time.
- D) The equivalent value of two cash flows at two different points in time is sometimes referred to as the time value of money.

Answer: <https://biology-forums.com/index.php?topic=814812>

Question 1196

If CCM has \$200 million of debt and 8 million shares of stock outstanding, then the share price for CCM is closest to:

- A) \$49.50
- B) \$12.50
- C) \$19.35
- D) \$24.50

Answer: <https://biology-forums.com/index.php?topic=815330>

Question 1197

For the year ending December 31, 2009 Luther's cash flow from financing activities is:

- A) 127.1
- B) 123.2
- C) 137.3
- D) 132.6

Answer: <https://biology-forums.com/index.php?topic=814655>

Question 1198

Which of the following formulas is INCORRECT?

- A) $g = \text{retention rate} \times \text{return on new investment}$
- B) $\text{Divt} = \text{EPSt} \times \text{Dividend Payout Rate}$
- C) $P_0 =$
- D) $r_E = -g$

Answer: <https://biology-forums.com/index.php?topic=815276>

Question 1199

Which of the following statements is FALSE?

- A) The project's free cash flow to equity shows the expected amount of additional cash the firm will have available to pay dividends (or conduct share repurchases) each year.
- B) The value of the project's FCFE should be identical to the NPV computed using the WACC and APV methods.
- C) The value of the project's FCFE represents the gain to shareholders from the project.
- D) Because interest payments are deducted before taxes, we adjust the firm's FCF by their before-tax cost.

Answer: <https://biology-forums.com/index.php?topic=816378>

Question 1200

Which of the following statements is FALSE?

- A) The risk premium of any marketable security can be written as the sum of the risk premium of each factor multiplied by the sensitivity of the stock with that factor.
- B) The factor betas measure the sensitivity of the stock to a particular factor.
- C) If we use more than one portfolio as factors, then together these factors will capture systematic risk, but each factor captures different components of the systematic risk.
- D) When we use more than one portfolio to capture risk, the model is known as a single factor model.

Answer: <https://biology-forums.com/index.php?topic=815813>

Question 1201

The price per \$100 face value of a four-year, zero-coupon, risk-free bond is closest to:

- A) \$90.06
- B) \$89.16
- C) \$86.39
- D) \$84.66

Answer: <https://biology-forums.com/index.php?topic=814972>

Question 1202

The beta for the portfolio of the three stocks is closest to:

- A) 0.92
- B) 0.94
- C) 1.00
- D) 1.02

Answer: <https://biology-forums.com/index.php?topic=815570>

Question 1203

Assume that Casa Grande Farms is planning to sell the tractors after two years, when its book value is \$119,988, for a total price of \$180,000. What is the effect on free cash flow in the year it is sold?

- A) A cash inflow of \$60,012
- B) A cash outflow of \$60,012
- C) A cash inflow of \$39,008
- D) A cash outflow of \$39,008

Answer: <https://biology-forums.com/index.php?topic=815251>

Question 1204

Which of the following statements is FALSE?

- A) The expected return is the return that actually occurs over a particular time period.
- B) If you hold the stock beyond the date of the first dividend, then to compute your return you must specify how you invest any dividends you receive in the interim.
- C) The average annual return of an investment during some historical period is simply the average of the realized returns for each year.
- D) The realized return is the total return we earn from dividends and capital gains, expressed as a percentage of the initial stock price.

Answer: <https://biology-forums.com/index.php?topic=815380>

Question 1205

You are considering adding a microbrewery on to one of your firm's existing restaurants. This will entail an increase in inventory of \$8000, an increase in Accounts payable of \$2500, and an increase in property, plant, and equipment of \$40,000. All other accounts will remain unchanged. The change in net working capital resulting from the addition of the microbrewery is:

- A) \$45,500
- B) \$10,500
- C) \$6500
- D) \$5500

Answer: <https://biology-forums.com/index.php?topic=815209>

Question 1206

Which of the following statements is FALSE?

- A) To determine the benefit of leverage for the value of the firm, we must compute the present value of the stream of future interest tax shields the firm will receive.
- B) Because the cash flows of the levered firm are equal to the sum of the cash flows from the unlevered firm plus the interest tax shield, by the Law of One Price the same must be true for the present values of these cash flows.
- C) By increasing the amount paid to debt holders through interest payments, the amount of the pre-tax cash flows that must be paid as taxes increases.
- D) When a firm uses debt, the interest tax shield provides a corporate tax benefit each year.

Answer: <https://biology-forums.com/index.php?topic=815958>

Question 1207

Consider a portfolio that consists of an equal investment in 20 firms. For each of these firms, there is a 70% probability that the firms will have a 16% return and a 30% that they will have a -8% return. Each of these firms' returns is independent of all others. The standard deviation of this portfolio is closest to:

- A) 2.5%
- B) 4.2%
- C) 8.8%
- D) 11.0%

Answer: <https://biology-forums.com/index.php?topic=815433>

Question 1208

If you are interested in creating a value-weighted portfolio of these four stocks, then the percentage amount that you would invest in Lowes is closest to:

- A) 25%
- B) 11%
- C) 20.0%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=815674>

Question 1209

What do you anticipate will happen to Lockheed-Martin and Boeing's stock prices as a result of this surprise announcement?

Answer: <https://biology-forums.com/index.php?topic=815364>

Question 1210

Wyatt Oil has a net profit margin of 4.0%, a total asset turnover of 2.2, total assets of \$525 million, and a book value of equity of \$220 million. Wyatt Oil's current return-on-equity (ROE) is closest to:

- A) 8.8%
- B) 9.5%
- C) 21.0%
- D) 22.8%

Answer: <https://biology-forums.com/index.php?topic=814680>

Question 1211

Which of the following statements is FALSE?

- A) Calculating the precise present value of financial distress costs is a relatively straightforward process.
- B) Two key qualitative factors determine the present value of financial distress costs: (1) the probability of financial distress and (2) the magnitude of the costs after a firm is in distress.
- C) Technology firms are likely to incur high costs when they are in financial distress, due to the potential for loss of customers and key personnel, as well as a lack of tangible assets that can be easily liquidated.
- D) The magnitude of the financial distress costs will depend on the relative importance of the sources of these costs and is likely to vary by industry.

Answer: <https://biology-forums.com/index.php?topic=816073>

Question 1212

Assuming perfect capital markets, the share price for BBB after this announcement is closest to:

- A) \$11.40
- B) \$10.85
- C) \$10.00
- D) \$8.60

Answer: <https://biology-forums.com/index.php?topic=816079>

Question 1213

The expected alpha for Taggart Transcontinental is closest to:

- A) -3.00%
- B) -1.00%
- C) 1.00%
- D) 3.00%

Answer: <https://biology-forums.com/index.php?topic=815749>

Question 1214

The price you would be willing to pay today for a share of Von Bora stock, if you plan to hold the stock for two years is closest to:

- A) \$23.15
- B) \$20.65
- C) \$21.95
- D) \$21.90

Answer: <https://biology-forums.com/index.php?topic=815301>

Question 1215

Larry should:

- A) reject the offer because the NPV < 0.
- B) accept the offer even though the IRR < 10%, because the NPV > 0.
- C) reject the offer because the IRR < 10%.
- D) accept the offer because the IRR > 0%.

Answer: <https://biology-forums.com/index.php?topic=815116>

Question 1216

If you want to value a firm that consistently pays out its earnings as dividends, the simplest model for you to use is the:

- A) enterprise value model.
- B) total payout model.
- C) dividend discount model.
- D) discounted free cash flow model.

Answer: <https://biology-forums.com/index.php?topic=815315>

Question 1217

Assume that five years have passed since Wyatt issued this debt. While tax rates have remained at 40%, interest rates have dropped so that Wyatt's current cost of debt capital is now only 4%. The present value of Wyatt's annual interest tax shield is now closest to:

- A) \$2.8 million
- B) \$40.0 million
- C) \$60.0 million
- D) \$70.0 million

Answer: <https://biology-forums.com/index.php?topic=815953>

Question 1218

After the repurchase how many shares will Luther have outstanding?

- A) 0.75 billion
- B) 1.0 billion
- C) 1.1 billion
- D) 1.2 billion

Answer: <https://biology-forums.com/index.php?topic=815872>

Question 1219

Which of the following statements is FALSE?

- A) On Nasdaq, stocks can and do have multiple market makers who compete with each other. Each market maker must post bid and ask prices in the Nasdaq network where they can be viewed by all participants.
- B) Bid prices exceed ask prices.
- C) Because customers always buy at the ask and sell at the bid, the bid-ask spread is a transaction cost investors have to pay in order to trade.
- D) On the floor of the NYSE, prior to 2005 market makers (known on the NYSE as specialists) matched buyers and sellers.

Answer: <https://biology-forums.com/index.php?topic=814602>

Question 1220

If we use future value rather than present value to decide whether to make an investment:

- A) we will make a bad decision, since the future value will always be higher if the discount rate is positive.
- B) we will make a bad decision, since the future value will always be lower if the discount rate is positive.
- C) we will make the same decision using either future value or present value.
- D) There is not enough information given to answer the question.

Answer: <https://biology-forums.com/index.php?topic=814732>

Question 1221

Assume that you own 4000 shares of Omicron stock and that Omicron uses the entire \$50 million to pay a special dividend. Suppose you are unhappy with Omicron's decision and would have preferred that Omicron used the excess cash to repurchase stock. Detail exactly how you could undo the dividend in a way that will provide you with the same combination of cash and stock that you would have received if Omicron had not paid the special dividend.

Answer: <https://biology-forums.com/index.php?topic=816170>

Question 1222

Which of the following statements is TRUE?

- A) Portfolios with lower volatility have historically rewarded investors with higher average returns.
- B) Individual stocks with higher volatility have consistently rewarded investors with higher average returns.
- C) Volatility seems to be a reasonable measure of risk when evaluating returns on large portfolios.
- D) Volatility seems to be a reasonable measure of risk when evaluating returns on individual stocks.

Answer: <https://biology-forums.com/index.php?topic=815409>

Question 1223

The amount that Ford Motor Company will owe in taxes next year without the launch of the new SUV is closest to:

- A) \$24.0 million
- B) \$56.0 million
- C) \$31.5 million
- D) \$13.5 million

Answer: <https://biology-forums.com/index.php?topic=815186>

Question 1224

The unlevered beta for Lincoln is closest to:

- A) 0.95
- B) 1.00
- C) 1.05
- D) 0.90

Answer: <https://biology-forums.com/index.php?topic=815902>

Question 1225

Iota's weighted average cost of capital is closest to:

- A) 8.40%
- B) 9.75%
- C) 10.85%
- D) 11.70%

Answer: <https://biology-forums.com/index.php?topic=816259>

Question 1226

Define the following terms:

- (a) perpetuity
- (b) annuity
- (c) growing perpetuity
- (d) growing annuity

Answer: <https://biology-forums.com/index.php?topic=814865>

Question 1227

Consider the following timeline detailing a stream of cash flows:

If the current market rate of interest is 6%, then the future value of this stream of cash flows is closest to:

- A) \$1723
- B) \$1500
- C) \$1626
- D) \$1288

Answer: <https://biology-forums.com/index.php?topic=814829>

Question 1228

Recycle America Inc. has the opportunity to trade 8000 pounds of plastic pellets made from recycled soda bottles for 5000 pounds of aluminum cans.

If the current market price of scrap aluminum is \$0.83 per pound and the current market price for plastic pellets is \$0.57 per pound, then the added benefit (cost) of making this trade is:

- A) (\$410)
- B) \$410
- C) (\$780)
- D) \$780

Answer: <https://biology-forums.com/index.php?topic=814712>

Question 1229

Assume that in the event of default, 20% of the value of MI's assets will be lost in bankruptcy costs and suppose that MI has zero-coupon debt with a \$125 million face value due next year. The total value of MI with leverage is closest to:

- A) \$140 million
- B) \$100 million
- C) \$125 million
- D) \$134 million

Answer: <https://biology-forums.com/index.php?topic=816064>

Question 1230

What is one of the incremental IRRs for project B over project A? Would you feel comfortable basing your decision on the incremental IRR?

Answer: <https://biology-forums.com/index.php?topic=815148>

Question 1231

Calculate the variance on a portfolio that is made up of equal investments in Stock Y and Stock Z stock.

Answer: <https://biology-forums.com/index.php?topic=815505>

Question 1232

The value of the gas and convenience store division is closest to:

- A) \$4500
- B) \$6000
- C) \$8600
- D) \$15,000

Answer: <https://biology-forums.com/index.php?topic=815725>

Question 1233

The total of Rosewood's net income and interest payments is closest to:

- A) \$270 million
- B) \$355 million
- C) \$290 million
- D) \$450 million

Answer: <https://biology-forums.com/index.php?topic=815942>

Question 1234

Suppose that to raise the funds for the initial investment the firm borrows \$80,000 at the risk free rate, then the cash flow that equity holders will receive in one year in a weak economy is closest to:

- A) \$6000
- B) \$10,000
- C) \$0
- D) \$33,000

Answer: <https://biology-forums.com/index.php?topic=815838>

Question 1235

Ignoring the original investment of \$5 million, what is THSI's free cash flow for the first and only year of operation?

- A) \$5.0 million
- B) \$3.75 million
- C) \$8.0 million
- D) \$6.25 million

Answer: <https://biology-forums.com/index.php?topic=815216>

Question 1236

A(n) _____ is the most common way that firms repurchase shares.

- A) targeted repurchase
- B) Dutch auction share repurchase
- C) tender offer
- D) open market share repurchases

Answer: <https://biology-forums.com/index.php?topic=816149>

Question 1237

Without issuing the new security, the NPV for this project is closest to what amount? Should the film maker make the investment?

- A) \$1.7 million; Yes
- B) \$1.7 million; No
- C) \$2.7 million; Yes
- D) \$2.7 million; No

Answer: <https://biology-forums.com/index.php?topic=814768>

Question 1238

Suppose you plan to hold Von Bora stock for only one year. Calculate your total return from holding Von Bora stock for the first year.

Answer: <https://biology-forums.com/index.php?topic=815309>

Question 1239

The Correlation between Stock X's and Stock Z's returns is closest to:

- A) 0.71
- B) 0.60
- C) 0.62
- D) 0.05

Answer: <https://biology-forums.com/index.php?topic=815498>

Question 1240

Which of the following statements regarding growing annuities is FALSE?

- A) A growing annuity is a stream of N growing cash flows, paid at regular intervals.
- B) We assume that $g < r$ when using the growing annuity formula.
- C) PV of a growing annuity = $C \times$
- D) A growing annuity is like a growing perpetuity that never comes to an end.

Answer: <https://biology-forums.com/index.php?topic=814843>

Question 1241

Calculate the enterprise value for DM Corporation.

Answer: <https://biology-forums.com/index.php?topic=815336>

Question 1242

Which of the following statements is FALSE?

- A) Debt holders are not foolish—they recognize that when the firm defaults, they will not be able to get the full value of the assets. As a result, they will pay less for the debt initially.
- B) The costs of financial distress represent an important departure from Modigliani and Miller's assumption of perfect capital markets.
- C) Levered firms risk incurring financial distress costs that reduce the cash flows available to investors.
- D) When securities are fairly priced, the original shareholders of a firm pay the future value of the costs associated with bankruptcy and financial distress.

Answer: <https://biology-forums.com/index.php?topic=816059>

Question 1243

The present value of KD's interest tax shield is closest to:

- A) \$130 million
- B) \$200 million
- C) \$400 million
- D) \$70 million

Answer: <https://biology-forums.com/index.php?topic=815989>

Question 1244

If you take the job with Wyatt Oil, then, in the event of bankruptcy, the least amount that Wyatt Oil would pay you next year is closest to:

- A) \$45,000
- B) \$50,000
- C) \$54,000
- D) \$75,000

Answer: <https://biology-forums.com/index.php?topic=816041>

Question 1245

Suppose that KAN's beta is 1.5. If the market risk premium is 8% and the risk-free interest rate is 4%, then the expected return for KAN stock is?

A) 8.0%
B) 16.0%
C) 13.5%
D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815462>

Question 1246

Which of the following statements regarding portfolio "A" is/are correct?

1. Portfolio "A" has a positive alpha.
2. Portfolio "A" is overpriced.
3. Portfolio "A" is less risky than the market portfolio.
4. Portfolio "A" should not exist if the market portfolio is efficient.

- A) 1 and 2
B) 1, 3, and 4
C) 1 and 3
D) 1, 2, 3, and 4

Answer: <https://biology-forums.com/index.php?topic=815791>

Question 1247

The NPV profile graphs:

- A) the project's NPV over a range of discount rates.
B) the project's IRR over a range of discount rates.
C) the project's cash flows over a range of NPVs.
D) the project's IRR over a range of NPVs.

Answer: <https://biology-forums.com/index.php?topic=815097>

Question 1248

The price of a share of JRN's stock is closest to:

- A) \$20.00
B) \$24.00
C) \$25.00
D) \$18.00

Answer: <https://biology-forums.com/index.php?topic=816176>

Question 1249

Assume that the corporate tax rate is 40%, the personal tax rate on income from equity is 20% and the personal rate on interest income is 36%. The effective tax advantage of a corporate issuing debt would be closest to:

- A) 10%
B) 15%
C) 25%
D) 28%

Answer: <https://biology-forums.com/index.php?topic=815995>

Question 1250

Which of the following statements is FALSE?

- A) A stock's return is perfectly positively correlated with itself.
B) When the covariance equals 0, the stocks have no tendency to move either together or in opposition of one another.
C) The closer the correlation is to -1, the more the returns tend to move in opposite directions.
D) The variance of a portfolio depends only on the variance of the individual stocks.

Answer: <https://biology-forums.com/index.php?topic=815489>

Question 1251

Which of the following statements is FALSE?

- A) We say a portfolio is an efficient portfolio whenever it is possible to find another portfolio that is better in terms of both expected return and volatility.
B) We can rule out inefficient portfolios because they represent inferior investment choices.
C) The volatility of the portfolio will differ, depending on the correlation between the securities in the portfolio.
D) Correlation has no effect on the expected return on a portfolio.

Answer: <https://biology-forums.com/index.php?topic=815516>

Question 1252

You expect KT Industries (KTI) will have earnings per share of \$3 this year and expect that they will pay out \$1.50 of these earnings to shareholders in the form of a dividend. KTI's return on new investments is 15% and their equity cost of capital is 12%. The value of a share of KTI's stock is closest to:

- A) \$39.25
- B) \$20.00
- C) \$33.35
- D) \$12.50

Answer: <https://biology-forums.com/index.php?topic=815287>

Question 1253

If KT expects to maintain a debt to equity ratio for this project of .6 then KT's equity cost of capital, r_E , for this project is closest to:

- A) 5.0%
- B) 12%
- C) 15.0%
- D) 17.0%

Answer: <https://biology-forums.com/index.php?topic=816302>

Question 1254

Taggart Transcontinental currently has a bank loan outstanding that requires it to make three annual payments at the end of the next three years of \$1,000,000 each. The bank has offered to allow Taggart Transcontinental to skip making the next two payments in lieu of making one large payment at the end of the loan's term in three years. If the interest rate on the loan is 6%, then the final payment that the bank will require to make Taggart Transcontinental indifferent between the two forms of payments is closest to:

- A) \$2,673,000
- B) \$3,000,000
- C) \$3,184,000
- D) \$3,375,000

Answer: <https://biology-forums.com/index.php?topic=814833>

Question 1255

Which of the following statements is FALSE?

- A) Given the spot interest rates, we can determine the price and yield of any other default-free bond.
- B) As the coupon increases, earlier cash flows become relatively less important than later cash flows in the calculation of the present value.
- C) When the yield curve is flat, all zero-coupon and coupon-paying bonds will have the same yield, independent of their maturities and coupon rates.
- D) When U.S. bond traders refer to "the yield curve," they are often referring to the coupon-paying Treasury yield curve.

Answer: <https://biology-forums.com/index.php?topic=815025>

Question 1256

Suppose a ten-year bond with semiannual coupons has a price of \$1,071.06 and a yield to maturity of 7%. This bond's coupon rate is closest to:

- A) 3.5%
- B) 6.0%
- C) 7.0%
- D) 8.0%

Answer: <https://biology-forums.com/index.php?topic=814974>

Question 1257

Which of the following statements is FALSE?

- A) For capital budgeting purposes, the project's financing is the incremental financing that results if the firm takes on the project.
- B) Projects with safer cash flows can support more debt before they increase the risk of financial distress for the firm.
- C) If the positive free cash flow from a project will increase the firm's cash holdings, then this growth in cash is equivalent to a reduction in the firm's leverage.
- D) The incremental financing of a project corresponds directly to the financing that is directly tied to the project.

Answer: <https://biology-forums.com/index.php?topic=816295>

Question 1258

Assume that capital markets are perfect, you issue \$30 million in new debt, and you issue \$20 million in new equity. Your ownership stake in the firm following these new issues of debt and equity is closest to:

- A) 58%

- B) 50%
- C) 33%
- D) 55%

Answer: <https://biology-forums.com/index.php?topic=816115>

Question 1259

The volatility of a portfolio that consists of a long position of \$10,000 in Wal-Mart and a short position of \$2000 in Microsoft is closest to:

- A) 9%
- B) 14%
- C) 11%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=815526>

Question 1260

For the year ending December 31, 2009 Luther's cash flow from operating activities is:

- A) 9.4
- B) -18.8
- C) 47.2
- D) 40.0

Answer: <https://biology-forums.com/index.php?topic=814652>

Question 1261

Suppose you plan on purchasing Von Bora stock in one year, right after the \$1.40 dividend is paid. You then plan on selling your stock at the end of year two, right after the \$1.50 dividend is paid. The total return that you will receive on your investment is closest to:

- A) 9.50%
- B) 10.75%
- C) 10.25%
- D) 10.00%

Answer: <https://biology-forums.com/index.php?topic=815308>

Question 1262

Assume that Omicron uses the entire \$50 million to repurchase shares. The amount of the regular yearly dividends in the future is closest to:

- A) \$9.00
- B) \$5.00
- C) \$4.50
- D) \$4.00

Answer: <https://biology-forums.com/index.php?topic=816166>

Question 1263

Which of the following statements is FALSE?

- A) The process of moving a value or cash flow forward in time is known as compounding.
- B) The effect of earning interest on interest is known as compound interest.
- C) It is only possible to compare or combine values at the same point in time.
- D) A dollar in the future is worth more than a dollar today.

Answer: <https://biology-forums.com/index.php?topic=814811>

Question 1264

Your firm currently has \$250 million in debt outstanding with an 8% interest rate. The terms of the loan require the firm to repay \$50 million of the balance each year. Suppose that the marginal corporate tax rate is 35% and that the interest tax shields have the same risk as the loan. What is the present value of the interest tax shields from this debt?

Answer: <https://biology-forums.com/index.php?topic=815982>

Question 1265

Assuming that Casa Grande Farms depreciates these tractors straight line over the three year life, then the annual depreciation tax shield in year 2 is closest to:

- A) 63,000
- B) 80,000
- C) 84,000
- D) 117,000

Answer: <https://biology-forums.com/index.php?topic=815249>

Question 1266

Nielson Motors has no debt, and maintains a policy of holding \$80 million in excess cash reserves, invested in risk free treasury securities currently yielding 3%. If Nielson is in the 35% marginal tax bracket, the cost of permanently maintaining this \$80 million reserve is closest to:

- A) \$0.85 million
- B) \$1.6 million
- C) \$24.0 million
- D) \$28.0 million

Answer: <https://biology-forums.com/index.php?topic=815955>

Question 1267

Suppose that you borrow \$30,000 in financing the project. According to MM proposition II, the firm's equity cost of capital will be closest to:

- A) 21%
- B) 15%
- C) 20%
- D) 25%

Answer: <https://biology-forums.com/index.php?topic=815906>

Question 1268

Which of the following statements is FALSE?

- A) If the market portfolio were not efficient, investors could find strategies that would "beat the market" with higher average returns and lower risk.
- B) The CAPM states that the cost of capital depends only on systematic risk.
- C) Efficient capital markets is a much stronger hypothesis than the CAPM.
- D) The market portfolio is an efficient portfolio.

Answer: <https://biology-forums.com/index.php?topic=815471>

Question 1269

Which of the following is NOT a direct cost of bankruptcy?

- A) Costs to creditors
- B) Investment banking costs
- C) Costs of accounting experts
- D) Legal costs and fees

Answer: <https://biology-forums.com/index.php?topic=816056>

Question 1270

The expected return on your investment is closest to:

- A) 18%
- B) 20%
- C) 12%
- D) 24%

Answer: <https://biology-forums.com/index.php?topic=815537>

Question 1271

Which of the following statements is FALSE?

- A) Because the cash flows promised by the bond are the most that bondholders can hope to receive, the cash flows that a purchaser of a bond with credit risk expects to receive may be less than that amount.
- B) By consulting bond ratings, investors can assess the credit-worthiness of a particular bond issue.
- C) Because the yield to maturity for a bond is calculated using the promised cash flows, the yield of bonds with credit risk will be lower than that of otherwise identical default-free bonds.
- D) A higher yield to maturity does not necessarily imply that a bond's expected return is higher.

Answer: <https://biology-forums.com/index.php?topic=815046>

Question 1272

The forward rate for year 4 (the forward rate quoted today for an investment that begins in three years and matures in four years) is closest to:

- A) 4.5%
- B) 4.6%
- C) 4.4%
- D) 5.0%

Answer: <https://biology-forums.com/index.php?topic=815079>

Question 1273

Suppose that you have \$100,000 invested in the market portfolio and that the stock price of Taggart Transcontinental suddenly drops to \$7.80 per share. Which of the following trades would you need to make in order to maintain your investment in the market portfolio:

1. Buy approximately 1140 shares of Taggart Transcontinental
2. Sell approximately 256 shares of Rearden Metal
3. Sell approximately 57 shares of Wyatt Oil
4. Sell approximately 148 shares of Nielson Motors

- A) 1 only
B) 2 only
C) 2, 3, and 4 only
D) 1, 2, 3, and 4
E) None of the above

Answer: <https://biology-forums.com/index.php?topic=815657>

Question 1274

You are interested in purchasing a new automobile that costs \$35,000. The dealership offers you a special financing rate of 6% APR (0.5%) per month for 48 months. Assuming that you do not make a down payment on the auto and you take the dealer's financing deal, then your monthly car payments would be closest to:

- A) \$729
B) \$822
C) \$842
D) \$647

Answer: <https://biology-forums.com/index.php?topic=814875>

Question 1275

Using the FFC four factor model and the historical average monthly returns, the expected monthly return for Wal-Mart is closest to:

- A) 0.71%
B) 0.53%
C) 1.38%
D) 0.79%

Answer: <https://biology-forums.com/index.php?topic=815825>

Question 1276

Which of the following statements is FALSE?

- A) The forward rate for year 1 is the rate on an investment that starts today and is repaid in one year; it is equivalent to an investment in a one-year zero-coupon bond.
B) The forward rate is only a good predictor of spot interest rates in the future when investors are risk adverse.
C) We can use the law of one price to calculate the forward rate from the zero-coupon yield curve.
D) An interest rate forward contract is a contract today that fixes the interest rate for a loan or investment in the future.

Answer: <https://biology-forums.com/index.php?topic=815073>

Question 1277

Which of the following statements is FALSE?

- A) Short-term margin loans from a broker are often 1% to 2% lower than the rates paid on short-term Treasury securities.
B) In the real world investors have different information and expectations regarding securities.
C) The SML is still valid when interest rates differ.
D) When borrowing and lending occur at different rates there are different tangent portfolios identified.

Answer: <https://biology-forums.com/index.php?topic=815562>

Question 1278

Suppose you invest \$15,000 in Merck stock and \$25,000 in Home Depot stock. You expect a return of 16% for Merck and 12% for Home Depot. What is the expected return on your portfolio?

- A) 13.50%
B) 14.00%
C) 13.75%
D) 14.50%

Answer: <https://biology-forums.com/index.php?topic=815483>

Question 1279

The payback period for Rearden's mining operation is closest to:

- A) 5.00 years
- B) 6.00 years
- C) 6.25 years
- D) 6.50 years

Answer: <https://biology-forums.com/index.php?topic=815122>

Question 1280

Taggart Transcontinental currently has a bank loan outstanding that requires it to make three annual payments at the end of the next three years or to skip making the next two payments in lieu of making one large payment at the end of the loan's term in three years in the amount of \$3,184,000. If the interest rate on the loan is 6%, then the annual payment the bank will require to make Taggart Transcontinental indifferent between the two forms of payments is closest to:

- A) \$2,673,000
- B) \$2,000,000
- C) \$1,673,000
- D) \$1,000,000

Answer: <https://biology-forums.com/index.php?topic=814881>

Question 1281

Luther's EBIT coverage ratio for the year ending December 31, 2009 is closest to:

- A) 1.64
- B) 1.78
- C) 1.98
- D) 2.19

Answer: <https://biology-forums.com/index.php?topic=814679>

Question 1282

Suppose that to raise the funds for the initial investment the firm borrows \$80,000 at the risk free rate, then the value of the firm's levered equity from the project is closest to:

- A) \$0
- B) \$10,000
- C) \$6000
- D) \$8600

Answer: <https://biology-forums.com/index.php?topic=815840>

Question 1283

Following the borrowing of \$12 million and subsequent share repurchase, the value of a share for RC is closest to:

- A) \$14.00
- B) \$13.20
- C) \$12.00
- D) \$10.80

Answer: <https://biology-forums.com/index.php?topic=815922>

Question 1284

MJ LTD is expected to grow at various rates over the next five years. The company just paid a \$1.00 dividend. The company expects to grow at 20% for the next two years (effecting D1 and D2), then the company expects to grow at 10% for three additional years (D3, D4, D5) after which the company expects to grow at a constant rate of 5% per year indefinitely. If the required rate of return on MJ's common stock is 12%, then what is a share of MJ's stock worth?

Answer: <https://biology-forums.com/index.php?topic=815291>

Question 1285

Wyatt's annual interest tax shield is closest to:

- A) \$2.8 million
- B) \$4.2 million
- C) \$7.0 million
- D) \$40 million

Answer: <https://biology-forums.com/index.php?topic=815950>

Question 1286

Which of the following equations is INCORRECT?

- A) $E[R_{x\text{CML}}] = r_f + x(E[R_{\text{Mkt}}] + r_f)$
- B) $r_i = r_f + b(E[R_{\text{Mkt}}] - r_f)$
- C) $SD(R_{x\text{CML}}) = xSD(R_{\text{Mkt}})$
- D) $E[R_{x\text{CML}}] = (1 - x)r_f + xE[R_{\text{Mkt}}]$

Answer: <https://biology-forums.com/index.php?topic=815577>

Question 1287

Which of the following statements regarding the Law of One Price is INCORRECT?

- A) At any point in time, the price of two equivalent goods trading in different competitive markets will be the same.
- B) One useful consequence of the Law of One Price is that when evaluating costs and benefits to compute a net present value, we can use any competitive price to determine a cash value, without checking the price in all possible markets.
- C) If equivalent goods or securities trade simultaneously in different competitive markets, then they will trade for the same price in both markets.
- D) An important property of the Law of One Price is that it holds even in markets where arbitrage is not possible.

Answer: <https://biology-forums.com/index.php?topic=814757>

Question 1288

Which of the following statements is FALSE?

- A) Portfolios with high market capitalizations must have positive alphas if the market portfolio is not efficient.
- B) The book-to-market is the observation that firms with high book-to-market ratios have positive alphas.
- C) If the market portfolio is not efficient, then a portfolio of high book-to-market stocks will likely have positive alphas.
- D) Portfolios with low book-to-market ratios must have zero alphas if the market portfolio is efficient.

Answer: <https://biology-forums.com/index.php?topic=815784>

Question 1289

Two separate firms are considering investing in this project. Firm unlevered plans to fund the entire \$80,000 investment using equity, while firm levered plans to borrow \$45,000 at the risk-free rate and use equity to finance the remainder of the initial investment. Calculate the risk premiums for both the levered and unlevered firm.

Answer: <https://biology-forums.com/index.php?topic=815849>

Question 1290

Which of the following statements is FALSE?

- A) Because expected returns are not easy to estimate, each portfolio that is added to a multifactor model increases the difficulty of implementing the model.
- B) The self-financing portfolio made from high minus low book-to-market stocks is called the high-minus-low (HML) portfolio.
- C) The FFC factor specification was identified a little more than ten years ago. Although it is widely used in academic literature to measure risk, much debate persists about whether it really is a significant improvement over the CAPM.
- D) A trading strategy that each year short sells portfolio S (small stocks) and uses this position to buy portfolio B (big stocks) has produced positive risk adjusted returns historically. This self-financing portfolio is widely known as the small minus big (SMB) portfolio.

Answer: <https://biology-forums.com/index.php?topic=815817>

Question 1291

The unlevered value of Luther's Product Line is closest to:

- A) \$25 million
- B) \$60 million
- C) \$45 million
- D) \$40 million

Answer: <https://biology-forums.com/index.php?topic=816273>

Question 1292

The NPV of project B is closest to:

- A) 12.6
- B) 23.3
- C) 12.0
- D) 15.0

Answer: <https://biology-forums.com/index.php?topic=815091>

Question 1293

Which of the following statements is FALSE?

- A) Stock markets aggregate the information and view of many different investors.
- B) Only in the relatively rare case in which we have some superior information that other investors lack regarding the firm's cash flows and cost of

capital would it make sense to second-guess the market stock price.

C) In most situations, a valuation model is best applied to tell us something about the value of the firm's stock.

D) The efficient market hypothesis implies that securities will be fairly priced, based on their future cash flows, given all information that is available to investors.

Answer: <https://biology-forums.com/index.php?topic=815357>

Question 1294

Which of the following statements is FALSE?

A) Beta is the expected percent change in the excess return of the security for a 1% change in the excess return of the market portfolio.

B) Beta represents the amount by which risks that affect the overall market are amplified for a given stock or investment.

C) It is common practice to estimate beta based on the historical correlation and volatilities.

D) Beta measures the diversifiable risk of a security, as opposed to its market risk, and is the appropriate measure of the risk of a security for an investor holding the market portfolio.

Answer: <https://biology-forums.com/index.php?topic=815688>

Question 1295

The standard deviation of the overall payoff to Bank A is closest to:

A) \$689,000

B) \$751,000

C) \$2,179,000

D) \$2,375,000

Answer: <https://biology-forums.com/index.php?topic=815418>

Question 1296

The weight on Lowes in your portfolio is:

A) 40%

B) 20%

C) 50%

D) 30%

Answer: <https://biology-forums.com/index.php?topic=815476>

Question 1297

Which of the following questions is FALSE?

A) Net Working Capital = Current Assets - Current Liabilities.

B) Because depreciation is not a cash flow, we do not include it in the cash flow forecast.

C) Tax loss carry backs allow corporations to take losses during the current year and use them to offset income in future years.

D) Earnings are an accounting measure of firm performance.

Answer: <https://biology-forums.com/index.php?topic=815201>

Question 1298

Which of the following statements is FALSE?

A) If investors have homogeneous expectations, then each investor will identify the same portfolio as having the highest Sharpe ratio in the economy.

B) Homogeneous expectations are when all investors have the same estimates concerning future investments and returns.

C) There are many investors in the world, and each must have identical estimates of the volatilities, correlations, and expected returns of the available securities.

D) The combined portfolio of risky securities of all investors must equal the efficient portfolio.

Answer: <https://biology-forums.com/index.php?topic=815662>

Question 1299

Suppose you have \$1000 today and the risk-free rate of interest (rf) is 3.5%. The equivalent value in one year is closest to:

A) \$965.00 today.

B) \$966.18 today.

C) \$1000.00 today.

D) \$1035.00 today.

Answer: <https://biology-forums.com/index.php?topic=814723>

Question 1300

Which of the following is NOT a diversifiable risk?

A) The risk that oil prices rise, increasing production costs

B) The risk of a product liability lawsuit

- C) The risk that the CEO is killed in a plane crash
 - D) The risk of a key employee being hired away by a competitor
- Answer: <https://biology-forums.com/index.php?topic=815425>

Question 1301

Which of the following statements is FALSE?

- A) In general, the difference between the cost of capital and the IRR is the maximum amount of estimation error in the cost of capital estimate that can exist without altering the original decision.
- B) The IRR can provide information on how sensitive your analysis is to errors in the estimate of your cost of capital.
- C) If you are unsure of your cost of capital estimate, it is important to determine how sensitive your analysis is to errors in this estimate.
- D) If the cost of capital estimate is more than the IRR, the NPV will be positive.

Answer: <https://biology-forums.com/index.php?topic=815083>

Question 1302

Luther Industries has a market capitalization of \$23 billion, no debt, and \$4 billion in cash. If Luther's estimated equity beta is 1.32, then the beta of Luther's underlying business enterprise is closest to:

- A) 1.09
- B) 1.32
- C) 1.48
- D) 1.60

Answer: <https://biology-forums.com/index.php?topic=815711>

Question 1303

What is the relationship between a bond's price and its yield to maturity?

Answer: <https://biology-forums.com/index.php?topic=814989>

Question 1304

Which of the following is NOT one of Modigliani and Miller's set of conditions referred to as perfect capital markets?

- A) All investors hold the efficient portfolio of assets.
- B) There are no taxes, transaction costs, or issuance costs associated with security trading.
- C) A firm's financing decisions do not change the cash flows generated by its investments, nor do they reveal new information about them.
- D) Investors and firms can trade the same set of securities at competitive market prices equal to the present value of their future cash flows.

Answer: <https://biology-forums.com/index.php?topic=815860>

Question 1305

Explain the main differences between the NYSE and NASDAQ stock markets.

Answer: <https://biology-forums.com/index.php?topic=814606>

Question 1306

Wyatt's expected EPS in two years is closest to:

- A) \$4.48
- B) \$4.64
- C) \$5.04
- D) \$5.38

Answer: <https://biology-forums.com/index.php?topic=815326>

Question 1307

Which of the four bonds is the most sensitive to a one percent increase in the YTM?

- A) Bond A
- B) Bond B
- C) Bond C
- D) Bond D

Answer: <https://biology-forums.com/index.php?topic=815019>

Question 1308

Suppose you invest \$15,000 in Merck stock and \$25,000 in Home Depot stock. You receive an actual return of -8% for Merck and 12% for Home Depot. What is the actual return on your portfolio?

- A) 4.50%
- B) 4.00%

- C) 10.00%
- D) 2.00%

Answer: <https://biology-forums.com/index.php?topic=815484>

Question 1309

The interest rate tax shield for Kroger in 2006 is closest to:

- A) \$187 million
- B) \$332 million
- C) \$534 million
- D) \$179 million

Answer: <https://biology-forums.com/index.php?topic=815934>

Question 1310

Assuming you don't pay the points and borrow from the mortgage lender at 6.25%, then your monthly mortgage payment (with payments made at the end of the month) will be closest to:

- A) \$694
- B) \$708
- C) \$1540
- D) \$1600

Answer: <https://biology-forums.com/index.php?topic=814914>

Question 1311

Which of the following statements is FALSE?

- A) The presence of financial distress costs can explain why firms choose debt levels that are too high to fully exploit the interest tax shield.
- B) With higher costs of financial distress, it is optimal for the firm to choose lower leverage.
- C) Differences in the magnitude of financial distress costs and the volatility of cash flows can explain the differences in the use of leverage across industries.
- D) At the point D^* , where VL is maximized, the tax savings that result from increasing leverage are just offset by the increased probability of incurring the costs of financial distress.

Answer: <https://biology-forums.com/index.php?topic=816076>

Question 1312

If Flagstaff currently maintains a .5 debt to equity ratio, then the value of Flagstaff as a levered firm is closest to:

- A) \$114 million
- B) \$100 million
- C) \$111 million
- D) \$140 million

Answer: <https://biology-forums.com/index.php?topic=815971>

Question 1313

Assuming that Luther has no convertible bonds outstanding, then for the year ending December 31, 2009 Luther's diluted earnings per share are closest to:

- A) \$1.01
- B) \$1.04
- C) \$1.28
- D) \$1.33

Answer: <https://biology-forums.com/index.php?topic=814643>

Question 1314

Given that Rose issues new debt of \$50 million initially to fund the acquisition, the present value of the interest tax shield for this acquisition is closest to:

- A) \$24 million
- B) \$50 million
- C) \$20 million
- D) \$15 million

Answer: <https://biology-forums.com/index.php?topic=816372>

Question 1315

The price per share of the ETF in a normal market is closest to:

- A) \$161.31

- B) \$322.62
- C) \$362.36
- D) \$483.93

Answer: <https://biology-forums.com/index.php?topic=814774>

Question 1316

Which of the following statements is FALSE?

- A) Graphically, the efficient portfolios are those on the northeast edge of the set of possible portfolios, an area which we call the efficient frontier.
- B) To arrive at the best possible set of risk and return opportunities, we should keep adding stocks until all investment opportunities are represented.
- C) We say a portfolio is short those stocks that have negative portfolio weights.
- D) Adding new investment opportunities allows for greater diversification and improves the efficient frontier.

Answer: <https://biology-forums.com/index.php?topic=815520>

Question 1317

Assume that you purchased J. P. Morgan Chase stock at the closing price on December 31, 2008 and sold it at the closing price on December 30, 2009. Calculate your realized annual return is for the year 2009.

Answer: <https://biology-forums.com/index.php?topic=815401>

Question 1318

Which of the following statements is most correct?

- A) An advantage to incorporation is that it allows for less regulation of the business.
- B) An advantage of a corporation is that it is subject to double taxation.
- C) Unlike a partnership, a disadvantage of a corporation is that has limited liability.
- D) Corporations face more regulations when compared to partnerships.

Answer: <https://biology-forums.com/index.php?topic=814576>

Question 1319

Calculate the IRR for the snow board project and use it to determine the maximum deviation allowable in the cost of capital estimate that leaves the investment decision unchanged. The maximum deviation allowable is closest to:

- A) 11.0%
- B) 0.0%
- C) 2.5%
- D) 1.0%

Answer: <https://biology-forums.com/index.php?topic=815118>

Question 1320

The amount of fee income that Galt's fund will generate is closest to:

- A) \$3.75 million
- B) \$8.00 million
- C) \$10.00 million
- D) \$25.00 million

Answer: <https://biology-forums.com/index.php?topic=815777>

Question 1321

Suppose that d'Anconia Copper retained the \$200 million in cash so that it would not need to raise new funds from outside investors for an expansion it has planned for next year. If it did raise new funds, it would have to pay issuance fees. Assuming that these fees can be expensed for corporate tax purposes, the amount that d'Anconia Copper needs to save in issuance fees to make retaining the cash beneficial for its investors is closest to:

- A) \$2.0 million
- B) \$5.5 million
- C) \$6.5 million
- D) \$7.0 million

Answer: <https://biology-forums.com/index.php?topic=816201>

Question 1322

The b_i in the regression:

- A) measures the sensitivity of the security to market risk.
- B) measures the historical performance of the security relative to the expected return predicted by the SML.
- C) measures the deviation from the best fitting line and is zero on average.
- D) measures the diversifiable risk in returns.

Answer: <https://biology-forums.com/index.php?topic=815691>

Question 1323

The payback period for project B is closest to:

- A) 2.5 years
- B) 2.0 years
- C) 2.2 years
- D) 2.4 years

Answer: <https://biology-forums.com/index.php?topic=815129>

Question 1324

The Sharpe Ratio for Rearden Metal is closest to:

- A) 0.40
- B) 0.56
- C) 0.80
- D) 1.00

Answer: <https://biology-forums.com/index.php?topic=815572>

Question 1325

What are the implications of the efficient market hypothesis for corporate managers?

Answer: <https://biology-forums.com/index.php?topic=815365>

Question 1326

Assuming that the risk-free rate is 4% and the expected return on the market is 12%, then required return on Peter's Portfolio is closest to:

- A) 10%
- B) 12%
- C) 9%
- D) 8%

Answer: <https://biology-forums.com/index.php?topic=815633>

Question 1327

If the interest rate is 7%, the NPV of alternative #1 is closest to:

- A) \$350,000
- B) \$357,000
- C) \$375,500
- D) \$400,000

Answer: <https://biology-forums.com/index.php?topic=814734>

Question 1328

The depreciation tax shield for the Shepard Industries project in year one is closest to:

- A) \$84
- B) \$168
- C) \$96
- D) \$72

Answer: <https://biology-forums.com/index.php?topic=815223>

Question 1329

The equity cost of capital for "Miney" is closest to:

- A) 6.30%
- B) 7.50%
- C) 9.30%
- D) 9.75%

Answer: <https://biology-forums.com/index.php?topic=815645>

Question 1330

At the conclusion of this transaction, the number of shares that d'Anconia Copper will have outstanding is closest to:

- A) 5 million
- B) 15 million
- C) 20 million
- D) 40 million

Answer: <https://biology-forums.com/index.php?topic=815856>

Question 1331

Suppose you own 10% of the equity of With. What is another portfolio you could hold that would provide you with the same exact cash flows?

Answer: <https://biology-forums.com/index.php?topic=815880>

Question 1332

The NPV for project Beta is closest to:

- A) \$24.01
- B) \$16.92
- C) \$20.96
- D) \$14.41

Answer: <https://biology-forums.com/index.php?topic=815094>

Question 1333

Which firm has the highest cost of equity capital?

- A) Eenie
- B) Meenie
- C) Miney
- D) Moe

Answer: <https://biology-forums.com/index.php?topic=815644>

Question 1334

The expected return of a portfolio that is equally invested in Duke Energy and Microsoft is closest to:

- A) 28%
- B) 29%
- C) 24%
- D) 23%

Answer: <https://biology-forums.com/index.php?topic=815523>

Question 1335

Which of the following statements is FALSE?

- A) We can improve the performance of our portfolio by selling stocks with negative alphas.
- B) The market portfolio is on the SML, and according to the CAPM, since all other portfolios are inefficient they will not fall on the SML.
- C) The difference between a stock's expected return and its required return according to the security market line is called the stock's alpha.
- D) The risk premium for any security is proportional to its beta with the market.

Answer: <https://biology-forums.com/index.php?topic=815587>

Question 1336

The difference between scenario analysis and sensitivity analysis is that:

- A) scenario analysis is based upon the IRR and sensitivity analysis is based upon NPV.
- B) only sensitivity analysis allows us to change our estimated inputs of our NPV analysis.
- C) only scenario analysis considers the effect on NPV of changing multiple project parameters.
- D) only scenario analysis breaks the NPV calculation into its component assumptions.

Answer: <https://biology-forums.com/index.php?topic=815261>

Question 1337

Luther Corporation's total sales for 2009 were \$610.1, and gross profit was \$109.0. Accounts payable days for 2009 is closest to:

- A) 27.5
- B) 5.71
- C) 52.4
- D) 63.8

Answer: <https://biology-forums.com/index.php?topic=814699>

Question 1338

Dagny Taggart is a graduating college senior and she is considering the costs of going to medical school. Beginning next fall, Dagny expects medical school tuition to run \$45,000 for the first year and she estimates that tuition will increase by 6% each year. If Dagny is able to invest her money in an account paying 8% interest per year, then the present value to Dagny of four years of medical school tuition is closest to:

- A) \$149,045

- B) \$155,930
- C) \$162,095
- D) \$180,000

Answer: <https://biology-forums.com/index.php?topic=814863>

Question 1339

Which of the following statements is FALSE?

- A) Stock returns will tend to move together if they are affected similarly by economic events.
- B) Stocks in the same industry tend to have more highly correlated returns than stocks in different industries.
- C) Almost all of the correlations between stocks are negative, illustrating the general tendency of stocks to move together.
- D) With a positive amount invested in each stock, the more the stocks move together and the higher their covariance or correlation, the more variable the portfolio will be.

Answer: <https://biology-forums.com/index.php?topic=815488>

Question 1340

Which of the following is NOT an indirect cost of bankruptcy?

- A) Loss of suppliers
- B) Fire sales of assets
- C) Costs of appraisers
- D) Loss of employees

Answer: <https://biology-forums.com/index.php?topic=816055>

Question 1341

Gross profit is calculated as:

- A) Total sales - cost of sales - selling, general and administrative expenses - depreciation and amortization.
- B) Total sales - cost of sales - selling, general and administrative expenses.
- C) Total sales - cost of sales.
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=814635>

Question 1342

Which of the following statements is FALSE?

- A) Modigliani and Miller's conclusion verified the common view, which stated that even with perfect capital markets, leverage would affect a firm's value.
- B) We can evaluate the relationship between risk and return more formally by computing the sensitivity of each security's return to the systematic risk of the economy.
- C) Investors in levered equity require a higher expected return to compensate for its increased risk.
- D) Leverage increases the risk of equity even when there is no risk that the firm will default.

Answer: <https://biology-forums.com/index.php?topic=815834>

Question 1343

Which of the following statements is FALSE?

- A) If two stocks move in opposite directions, one will tend to be above average when the other is below average, and the covariance will be negative.
- B) The correlation between two stocks has the same sign as their covariance, so it has a similar interpretation.
- C) The covariance of a stock with itself is simply its variance.
- D) The covariance allows us to gauge the strength of the relationship between stocks.

Answer: <https://biology-forums.com/index.php?topic=815490>

Question 1344

Which of the following statements regarding limited partnerships is TRUE?

- A) There is no limit on a limited partner's liability.
- B) A limited partner's liability is limited by the amount of their investment.
- C) A limited partner is not liable until all the assets of the general partners have been exhausted.
- D) A general partner's liability is limited by the amount of their investment.

Answer: <https://biology-forums.com/index.php?topic=814574>

Question 1345

Which of the following statements is FALSE?

- A) The standard deviation is the square root of the variance.
- B) Because investors dislike only negative resolutions of uncertainty, alternative measures that focus solely on downside risk have been developed,

such as the semi-variance and the expected tail loss.

- C) While the variance and the standard deviation are the most common measures of risk, they do not differentiate between upside and downside risk.
- D) While the variance and the standard deviation both measure the variability of the returns, the variance is easier to interpret because it is in the same units as the returns themselves.

Answer: <https://biology-forums.com/index.php?topic=815372>

Question 1346

Based upon Ideko's Sales and Operating Cost Assumptions, what production capacity will Ideko require in 2007?

- A) 1505 units
- B) 1323 units
- C) 1914 units
- D) 1115 units

Answer: <https://biology-forums.com/index.php?topic=816443>

Question 1347

Explain the difference between a sub-chapter "S" corporation and a sub-chapter "C" corporation.

Answer: <https://biology-forums.com/index.php?topic=814584>

Question 1348

The Grant Corporation is considering permanently adding \$500 million of debt to its capital structure. Grant's corporate tax rate is 35% and investors pay a tax rate of 40% on their interest income and 20% on their income from capital gains and dividends. Calculate the present value of the interest tax shield provided by this new debt.

Answer: <https://biology-forums.com/index.php?topic=816018>

Question 1349

Rearden Metals expects to have earnings this coming year of \$2.50 per share. Rearden plans to retain all of its earnings for the next year. For the subsequent three years, the firm will retain 50% of its earnings. It will then retain 25% of its earnings from that point onward. Each year, retained earnings will be invested in new projects with an expected return of 20% per year. Any earnings that are not retained will be paid out as dividends. Assume Rearden's shares outstanding remains constant and all earnings growth comes from the investment of retained earnings. If Rearden's equity cost of capital is 10%, then Rearden's stock price is closest to:

- A) \$40.80
- B) \$44.60
- C) \$59.80
- D) \$63.50

Answer: <https://biology-forums.com/index.php?topic=815313>

Question 1350

What is the variance on a portfolio that has \$2000 invested in Duke Energy, \$3000 invested in Microsoft, and \$5000 invested in Wal-Mart stock?

Answer: <https://biology-forums.com/index.php?topic=815514>

Question 1351

Consider two mutually exclusive projects A & B. If you subtract the cash flows of opportunity B from the cash flows of opportunity A, then you should:

- A) take opportunity A if the regular IRR exceeds the cost of capital.
- B) take opportunity A if the incremental IRR exceeds the cost of capital.
- C) take opportunity B if the regular IRR exceeds the cost of capital.
- D) take opportunity B if the incremental IRR exceeds the cost of capital.

Answer: <https://biology-forums.com/index.php?topic=815137>

Question 1352

The value of currently unused warehouse space that will be used as part of a new capital budgeting project is:

- A) an opportunity cost.
- B) irrelevant to the investment decision.
- C) an overhead expense.
- D) a sunk cost.

Answer: <https://biology-forums.com/index.php?topic=815185>

Question 1353

Consider a portfolio consisting of only Microsoft and Wal-Mart stock. Calculate the volatility of such a portfolio when the weight on Microsoft stock is 0%, 25%, 50%, 75%, and 100%

Answer: <https://biology-forums.com/index.php?topic=815528>

Question 1354

You own 100 shares of a Sub Chapter "S" corporation. The corporation earns \$5.00 per share before taxes. Once the corporation has paid any corporate taxes that are due, it will distribute the rest of its earnings to its shareholders in the form of a dividend. If the corporate tax rate is 40% and your personal tax rate on (both dividend and non-dividend) income is 30%, then how much money is left for you after all taxes have been paid?

- A) \$210
- B) \$300
- C) \$350
- D) \$500

Answer: <https://biology-forums.com/index.php?topic=814581>

Question 1355

The alpha that investors in Galt's fund expect to receive is closest to:

- A) -.80%
- B) 0.0%
- C) 0.80%
- D) 1.8%

Answer: <https://biology-forums.com/index.php?topic=815775>

Question 1356

If Moon Corporation's gross margin declined, which of the following is TRUE?

- A) Its cost of goods sold increased.
- B) Its cost of goods sold as a percent of sales increased.
- C) Its sales increased.
- D) Its net profit margin was unaffected by the decline.

Answer: <https://biology-forums.com/index.php?topic=814694>

Question 1357

You are considering purchasing a new truck that will cost you \$34,000. The dealer offers you 1.9% APR financing for 48 months (with payments made at the end of the month). Assuming you finance the entire \$34,000 and finance through the dealer, your monthly payments will be closest to:

- A) \$708
- B) \$725
- C) \$736
- D) \$1086

Answer: <https://biology-forums.com/index.php?topic=814911>

Question 1358

Explain why the expected return of a corporate bond does not equal its yield to maturity?

Answer: <https://biology-forums.com/index.php?topic=815066>

Question 1359

The variance of the return on Alpha Corporation is closest to:

- A) 5.00%
- B) 4.75%
- C) 3.625%
- D) 3.75%

Answer: <https://biology-forums.com/index.php?topic=815375>

Question 1360

Construct a simple income statement showing the incremental EBIT and the incremental unlevered net income for all three years of the Sisyphian Companies project.

Answer: <https://biology-forums.com/index.php?topic=815199>

Question 1361

The largest stock market in the world by volume is:

- A) the London Stock Exchange.
- B) NASDAQ.
- C) the American Stock Exchange.

D) the New York Stock Exchange.

Answer: <https://biology-forums.com/index.php?topic=814599>

Question 1362

Consider the following equation:

$$E + D = U = A$$

The U in this equation represents:

- A) the value of the firm's equity.
- B) the market value of the firm's assets.
- C) the value of the firm's unlevered equity.
- D) the value of the firm's debt.

Answer: <https://biology-forums.com/index.php?topic=815888>

Question 1363

The term β measures the sensitivity of the securities returns to:

- A) the overall market.
- B) book-to-market.
- C) size.
- D) momentum.

Answer: <https://biology-forums.com/index.php?topic=815822>

Question 1364

Which firm has the most total risk?

- A) Eenie
- B) Meenie
- C) Miney
- D) Moe

Answer: <https://biology-forums.com/index.php?topic=815642>

Question 1365

Assume that MM's perfect capital market conditions are met and that you can borrow and lend at the same 5% rate as With. You have \$5000 of your own money to invest and you plan on buying Without stock. Using homemade leverage, how much do you need to borrow in your margin account so that the payoff of your margined purchase of Without stock will be the same as a \$5000 investment in With stock?

- A) \$10,000
- B) \$5000
- C) \$2500
- D) \$0

Answer: <https://biology-forums.com/index.php?topic=815867>

Question 1366

If investors have relative wealth concerns, they care most about:

- A) the return on their portfolio relative to their overall current wealth.
- B) the performance of their portfolio relative to that of their peers.
- C) their current portfolio performance relative to their past portfolio performance.
- D) the performance of their current wealth relative to their past wealth.

Answer: <https://biology-forums.com/index.php?topic=815759>

Question 1367

If Flagstaff currently maintains a .5 debt to equity ratio, then the value of Flagstaff as an all equity firm would be closest to:

- A) \$80 million
- B) \$100 million
- C) \$73 million
- D) \$115 million

Answer: <https://biology-forums.com/index.php?topic=815969>

Question 1368

After the recapitalization, the value of KD's levered equity is closest to:

- A) \$670 million
- B) \$400 million
- C) \$330 million

D) \$470 million

Answer: <https://biology-forums.com/index.php?topic=815991>

Question 1369

Assuming that your capital is constrained, which project should you invest in first?

- A) Project C
- B) Project G
- C) Project B
- D) Project F

Answer: <https://biology-forums.com/index.php?topic=815157>

Question 1370

Assume that Rockwood is not able to repurchase shares prior to the market becoming aware of the new information regarding Rockwood's true value. If Rockwood repurchases the shares following the release of the new information, then the number of shares outstanding following the repurchase is closest to:

- A) 92 million
- B) 90 million
- C) 75 million
- D) 10 million

Answer: <https://biology-forums.com/index.php?topic=816226>

Question 1371

The Market's average historical return is closest to:

- A) -2.50%
- B) -3.33%
- C) -4.33%
- D) -5.17%

Answer: <https://biology-forums.com/index.php?topic=815679>

Question 1372

You are offered an investment opportunity in which you will receive \$23,750 today in exchange for paying \$25,000 in one year. Suppose the risk-free interest rate is 6% per year. Should you take this project? The NPV for this project is closest to:

- A) Yes; NPV = \$165
- B) No; NPV = \$165
- C) Yes; NPV = -\$165
- D) No; NPV = -\$165

Answer: <https://biology-forums.com/index.php?topic=814745>

Question 1373

When investors imitate each other's actions, this is known as _____ behavior.

- A) pack
- B) flock
- C) herd
- D) shepherd

Answer: <https://biology-forums.com/index.php?topic=815768>

Question 1374

Which of the following statements is FALSE?

- A) When a firm pays a dividend, shareholders are taxed according to the dividend tax rate. If the firm repurchases shares instead, and shareholders sell shares to create a homemade dividend, the homemade dividend will be taxed according to the capital gains tax rate.
- B) When the tax rate on dividends exceeds the tax rate on capital gains, shareholders will pay lower taxes if a firm uses share repurchases for all payouts rather than dividends.
- C) Firms that use dividends will have to pay a lower after-tax return to offer their investors the same pre-tax return as firms that use share repurchases.
- D) The optimal dividend policy when the dividend tax rate exceeds the capital gain tax rate is to pay no dividends at all.

Answer: <https://biology-forums.com/index.php?topic=816174>

Question 1375

Suppose an investment is equally likely to have a 35% return or a -20% return. The expected return for this investment is closest to:

- A) 7.5%

- B) 15%
- C) 5%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=815377>

Question 1376

Which of the following statements regarding growing perpetuities is FALSE?

- A) We assume that $r < g$ for a growing perpetuity.
- B) PV of a growing perpetuity =
- C) To find the value of a growing perpetuity one cash flow at a time would take forever.
- D) A growing perpetuity is a cash flow stream that occurs at regular intervals and grows at a constant rate forever.

Answer: <https://biology-forums.com/index.php?topic=814842>

Question 1377

Which of the following statements is FALSE?

- A) Without trading, the portfolio weights will decrease for the stocks in the portfolio whose returns are above the overall portfolio return.
- B) The expected return of a portfolio is simply the weighted average of the expected returns of the investments within the portfolio.
- C) Portfolio weights add up to 1 so that they represent the way we have divided our money between the different individual investments in the portfolio.
- D) A portfolio weight is the fraction of the total investment in the portfolio held in an individual investment in the portfolio.

Answer: <https://biology-forums.com/index.php?topic=815473>

Question 1378

Nielson's estimated equity beta is closest to:

- A) 0.95
- B) 1.00
- C) 1.25
- D) 1.45

Answer: <https://biology-forums.com/index.php?topic=816291>

Question 1379

Suppose that you deposit \$10,000 in an account that pays 6% interest and you want to know how much will be in your account at the end of 10 years.

To solve this problem in Microsoft Excel, you would use which of the following Excel formulas?

- A) =FV(.06,10000,0,10)
- B) =PV(.06,10000,0,10)
- C) =FV(.06,10,0,10000)
- D) =PV(.06,10,0,10000)

Answer: <https://biology-forums.com/index.php?topic=814871>

Question 1380

You are offered an investment opportunity that costs you \$28,000, has an NPV of \$2278, lasts for three years, has interest rate of 10%, and produces the following cash flows:

The missing cash flow from year 2 is closest to:

- A) \$12,500
- B) \$12,000
- C) \$13,000
- D) \$10,000

Answer: <https://biology-forums.com/index.php?topic=814864>

Question 1381

The inventory days ratio measures:

- A) the average length of time it takes a company to sell its inventory.
- B) the average length of time it takes the company's suppliers to deliver its inventory.
- C) the level of sales required to keep a company's average inventory on the books.
- D) the percentage change in inventory over the past year.

Answer: <https://biology-forums.com/index.php?topic=814695>

Question 1382

Which of the following statements is FALSE?

- A) No arbitrage opportunities will exist until the underlying prices diverge by more than the amount of the transaction costs.
- B) Because you will generally pay a slightly lower price when you buy a security (the ask price) than you receive when you sell (the bid price) you will

pay the bid-ask spread.

- C) The price of a security should equal the present value of its cash flows, up to the transaction costs of trading the security and the cash flows.
- D) In most markets, you must pay transactions costs to trade securities.

Answer: <https://biology-forums.com/index.php?topic=814791>

Question 1383

Which of the following statements is FALSE?

- A) The agency costs of debt can arise only if there is no chance the firm will default and impose losses on its debt holders.
- B) Agency costs represent another cost of increasing the firm's leverage that will affect the firm's optimal capital structure choice.
- C) An under-investment problem occurs when shareholders choose to not invest in a positive-NPV project.
- D) When a firm faces financial distress, it may choose not to finance new, positive-NPV projects.

Answer: <https://biology-forums.com/index.php?topic=816094>

Question 1384

A key difference between sovereign default and corporate bonds is:

- A) unlike a corporation, a country facing difficulty meeting its financial obligations is can not default.
- B) unlike corporate debt, sovereign debt prices are not inverse to yields.
- C) unlike a corporation, any country can turn to the EMU to pay off its debts.
- D) unlike a corporation, a country facing difficulty meeting its financial obligations typically has the option to print more currency.

Answer: <https://biology-forums.com/index.php?topic=815069>

Question 1385

Anyone who purchases the stock on or after the _____ date will not receive the dividend.

- A) distribution
- B) record
- C) ex-dividend
- D) declaration

Answer: <https://biology-forums.com/index.php?topic=816143>

Question 1386

The forward rate for year 5 (the forward rate quoted today for an investment that begins in four years and matures in five years) is closest to:

- A) 4.0%
- B) 3.8%
- C) 4.8%
- D) 4.2%

Answer: <https://biology-forums.com/index.php?topic=815080>

Question 1387

What range for the market value of equity for Ideko is implied by the range of EV/EBITDA multiples for the comparable firms if Ideko holds \$6.5 million of cash in excess of its working capital needs?

Answer: <https://biology-forums.com/index.php?topic=816440>

Question 1388

Consider a portfolio consisting of only Duke Energy and Microsoft. The percentage of your investment (portfolio weight) that you would place in Duke Energy stock to achieve a risk-free investment would be closest to:

- A) 15%
- B) 40%
- C) 23%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=815522>

Question 1389

The firm's unlevered (asset) cost of capital is:

- A) the weighted average of the equity cost of capital and the debt cost of capital.
- B) the weighted average of the levered cost of capital and the equity cost of capital.
- C) the debt cost of capital minus the equity cost of capital.
- D) the unlevered beta minus the cost of capital.

Answer: <https://biology-forums.com/index.php?topic=815719>

Question 1390

Which of the following statements is INCORRECT?

- A) In general, money today is worth more than money in one year.
- B) We define the risk-free interest rate, r_f for a given period as the interest rate at which money can be borrowed or lent without risk over that period.
- C) We refer to $(1 - r_f)$ as the interest rate factor for risk-free cash flows.
- D) For most financial decisions, costs and benefits occur at different points in time.

Answer: <https://biology-forums.com/index.php?topic=814725>

Question 1391

LCMS' annual interest tax shield is closest to:

- A) \$2.8 million
- B) \$2.0 million
- C) \$3.6 million
- D) \$5.6 million

Answer: <https://biology-forums.com/index.php?topic=815978>

Question 1392

You expect Whirlpool Corporation (WHR) to have earnings per share of \$6.10 over the coming year. If the average P/E ratio for the appliance industry sector is 17.0, the value of a share of Whirlpool stock based upon the comparables approach is closest to:

- A) \$103.70
- B) \$27.90
- C) \$35.90
- D) \$23.10

Answer: <https://biology-forums.com/index.php?topic=815349>

Question 1393

The alpha for Bernard is closest to:

- A) +5%
- B) -2%
- C) -3%
- D) +2%

Answer: <https://biology-forums.com/index.php?topic=815797>

Question 1394

The incremental EBIT in the first year for the Sisyphian Corporation's project is closest to:

- A) \$18,000
- B) \$8000
- C) \$11,700
- D) \$5200

Answer: <https://biology-forums.com/index.php?topic=815192>

Question 1395

What decision should Galt Motors take regarding manufacturing the armatures in house?

- A) Proceed with in house manufacture since NPV is negative
- B) Proceed with in house manufacture since NPV is positive
- C) Reject in-house manufacture since NPV is negative
- D) Reject in-house manufacture since IRR is greater than 14%

Answer: <https://biology-forums.com/index.php?topic=815242>

Question 1396

What type of company trades on an organized stock exchange?

- A) A limited liability company
- B) A private company
- C) An "S" corporation
- D) A public company

Answer: <https://biology-forums.com/index.php?topic=814601>

Question 1397

The geometric average annual return on the Index from 2000 to 2009 is closest to:

- A) 9.75%
- B) 8.75%
- C) 7.10%
- D) 8.35%

Answer: <https://biology-forums.com/index.php?topic=815399>

Question 1398

Portfolio "D":

- A) falls below the SML.
- B) has a negative alpha.
- C) is overpriced.
- D) offers an expected return equal to the risk-free rate.

Answer: <https://biology-forums.com/index.php?topic=815789>

Question 1399

The effective annual rate (EAR) for a loan with a stated APR of 8% compounded monthly is closest to:

- A) 7.72%
- B) 8.00%
- C) 8.30%
- D) 8.66%

Answer: <https://biology-forums.com/index.php?topic=814894>

Question 1400

Which of the following statements is FALSE?

- A) The covariance and correlation allow us to measure the co-movement of returns.
- B) Correlation is the expected product of the deviations of two returns.
- C) Because the prices of the stocks do not move identically, some of the risk is averaged out in a portfolio.
- D) The amount of risk that is eliminated in a portfolio depends on the degree to which the stocks face common risks and their prices move together.

Answer: <https://biology-forums.com/index.php?topic=815485>

Question 1401

What is the excess return for the S&P 500?

- A) 5.7%
- B) 7.0%
- C) 0%
- D) 8.4%

Answer: <https://biology-forums.com/index.php?topic=815411>

Question 1402

The initial value of MI's equity without leverage is closest to:

- A) \$133 million
- B) \$147 million
- C) \$140 million
- D) \$150 million

Answer: <https://biology-forums.com/index.php?topic=816030>

Question 1403

If ECE's net profit margin is 8%, then ECE's return on equity (ROE) is:

- A) 10%
- B) 12%
- C) 24%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=814686>

Question 1404

You are saving for retirement. To live comfortably, you decide that you will need \$2.5 million dollars by the time you are 65. If today is your 30th birthday, and you decide, starting today, and on every birthday up to and including your 65th birthday, that you will deposit the same amount into your savings account. Assuming the interest rate is 5%, the amount that you must set aside each year on your birthday is closest to:

- A) \$71,430

- B) \$27,680
- C) \$26,100
- D) \$26,260

Answer: <https://biology-forums.com/index.php?topic=814882>

Question 1405

If Galt's debt cost of capital is 6%, then Galt's equity cost of capital is closest to:

- A) 11.2%
- B) 12.0%
- C) 14.8%
- D) 15.2%

Answer: <https://biology-forums.com/index.php?topic=816334>

Question 1406

Assume the following tax schedule:

Personal Tax Rates

Year Corporate Tax Rate Interest Income Dividends Capital Gains

2000 35% 40% 40% 20%

2005 35% 35% 15% 15%

Considering the effect of personal taxes, calculate the PV of the interest tax shield provided by KD's recapitalization in 2005.

Answer: <https://biology-forums.com/index.php?topic=816017>

Question 1407

Which of the following statements is FALSE?

- A) Margin investing is a risky investment strategy.
- B) Because our return on the risk-free investments is fixed and does not move with (or against) our portfolio, the correlation between the risk-free investment and the portfolio is always equal to one.
- C) Short selling the risk free investment is equivalent to borrowing money at the risk-free interest rate through a standard loan.
- D) Margin investing can provide higher expected returns than investing in the efficient portfolio using only the funds we have available.

Answer: <https://biology-forums.com/index.php?topic=815531>

Question 1408

Which of the following statements is FALSE?

- A) The fact that a firm has an exceptional management team, has developed an efficient manufacturing process, or has just secured a patent on a new technology is ignored when we apply a valuation multiple.
- B) Valuation multiples have the advantage that they allow us to incorporate specific information about the firm's cost of capital or future growth.
- C) For firms with substantial tangible assets, the ratio of price to book value of equity per share is sometimes used.
- D) Using multiples will not help us determine if an entire industry is overvalued.

Answer: <https://biology-forums.com/index.php?topic=815342>

Question 1409

Which of the following statements is FALSE?

- A) The equity cost of capital for a stock is the expected return of other investments available in the market with equivalent risk to the firm's shares.
- B) The price of a share of stock is equal to the present value of the expected future dividends it will pay.
- C) If the current stock price were less than $P_0 = \frac{D_1}{r}$, it would be a negative NPV investment, and we would expect investors to rush in and sell it, driving down the stocks price.
- D) The law of one price implies that to value any security, we must determine the expected cash flows an investor will receive from owning it.

Answer: <https://biology-forums.com/index.php?topic=815295>

Question 1410

The total amount of principal that Dagny will pay during the first three months of her mortgage is closest to:

- A) \$1340
- B) \$1345
- C) \$5395
- D) \$6740

Answer: <https://biology-forums.com/index.php?topic=814927>

Question 1411

The internal rate of return (IRR) for project Alpha is closest to:

- A) 25.0%

- B) 22.2%
- C) 24.5%
- D) 22.7%

Answer: <https://biology-forums.com/index.php?topic=815111>

Question 1412

Which of the following is NOT true regarding individual investor behavior?

- A) Individual investors fail to diversify their portfolios adequately.
- B) A vast majority of individual investors hold fewer than 10 stocks in their portfolio.
- C) Employees tend to overinvest in their company's own stock.
- D) Individual investors' portfolios consistently outperform the market averages.

Answer: <https://biology-forums.com/index.php?topic=815761>

Question 1413

Bubba Ho-Tep Company reported net income of \$300 million for the most recent fiscal year. The firm had depreciation expenses of \$125 million and capital expenditures of \$150 million. Although they had no interest expense, the firm did have an increase in net working capital of \$20 million. What is Bubba Ho-Tep's free cash flow?

- A) \$170 million
- B) \$255 million
- C) \$150 million
- D) \$5 million

Answer: <https://biology-forums.com/index.php?topic=815215>

Question 1414

Suppose the risk-free interest rate is 4%. If Nielson borrows \$150 million today at this rate and uses the proceeds to pay an immediate cash dividend, then according to MM, the expected return of Nielson's stock just after the dividend is paid would be closest to:

- A) -17.5%
- B) -12.5%
- C) 12.5%
- D) 17.5%

Answer: <https://biology-forums.com/index.php?topic=815830>

Question 1415

Assume that capital markets are perfect except for the existence of corporate taxes. Your firm pays 40% of earnings in taxes and you decide to issue \$25 million in new debt and \$25 million in new equity. Your ownership stake in the firm following these new issues of debt and equity is closest to:

- A) 58%
- B) 55%
- C) 33%
- D) 50%

Answer: <https://biology-forums.com/index.php?topic=816117>

Question 1416

Calculate Luther's return of equity (ROE), return of assets (ROA), and price-to-earnings ratio (P/E) for the year ending December 31, 2008.

Answer: <https://biology-forums.com/index.php?topic=814675>

Question 1417

The effective annual rate (EAR) for a savings account with a stated APR of 4% compounded daily (use 365 day year) is closest to:

- A) 3.92%
- B) 4.00%
- C) 4.08%
- D) 14.60%

Answer: <https://biology-forums.com/index.php?topic=814896>

Question 1418

Which of the following adjustments is NOT correct if you are trying to calculate cash flow from financing activities?

- A) Add dividends paid
- B) Add any increase in long term borrowing
- C) Add any increase in short-term borrowing
- D) Add proceeds from the sale of stock

Answer: <https://biology-forums.com/index.php?topic=814650>

Question 1419

Assuming the appropriate YTM on the Sisyphian bond is 9.0%, then the price that this bond trades for will be closest to:

- A) \$946
- B) \$919
- C) \$1086
- D) \$1000

Answer: <https://biology-forums.com/index.php?topic=814982>

Question 1420

Should you purchase the delivery truck or lease it? Why?

Answer: <https://biology-forums.com/index.php?topic=814918>

Question 1421

The weight on Abbott Labs in your portfolio is:

- A) 50%
- B) 40%
- C) 30%
- D) 20%

Answer: <https://biology-forums.com/index.php?topic=815475>

Question 1422

If the risk-free interest rate is 10%, then of the four projects listed, if could only invest in two of these projects, which two projects would you select?

- A) Mighty & Eenie
- B) Mighty & Meenie
- C) Eenie & Moe
- D) Eenie & Meenie

Answer: <https://biology-forums.com/index.php?topic=814753>

Question 1423

Which of the following statements is FALSE?

- A) Sensitivity analysis allows us to explore the effects of errors in our estimated inputs in our NPV analysis for the project.
- B) To compute the NPV for a project, you need to estimate the incremental cash flows and choose a discount rate.
- C) Estimates of the cash flows and cost of capital are often subject to significant uncertainty.
- D) When we are certain regarding the input to a capital budgeting decision, it is often useful to determine the break-even level of that input.

Answer: <https://biology-forums.com/index.php?topic=815259>

Question 1424

Which of the following methods are used in capital budgeting decisions?

- A) WACC method
- B) APV method
- C) FTE method
- D) All of the above are used in capital budgeting decisions.

Answer: <https://biology-forums.com/index.php?topic=816239>

Question 1425

The incremental after tax cash flow that the Krusty Krab will receive from selling the existing grill is closest to:

- A) 19,500
- B) 30,000
- C) 33,500
- D) 50,000

Answer: <https://biology-forums.com/index.php?topic=815245>

Question 1426

The Sarbanes-Oxley Act (SOX) was passed by Congress in 2002, in response to:

- A) financial scandals, including WorldCom and Enron.
- B) financial scandals, including Bernie Madoff and AIG.
- C) financial scandals, including General Motors and Chrysler.
- D) the Troubled Asset Relief Program (TARP).

Answer: <https://biology-forums.com/index.php?topic=814705>

Question 1427

The present value of an investment that pays \$2000 in one year and \$3000 in three years for certain is closest to:

- A) \$4707
- B) \$4685
- C) \$4729
- D) \$5000

Answer: <https://biology-forums.com/index.php?topic=814951>

Question 1428

The amount of net working capital for Ideko in 2007 is closest to:

- A) \$30,510
- B) \$26,420
- C) \$22,170
- D) \$35,195

Answer: <https://biology-forums.com/index.php?topic=816457>

Question 1429

Which of the following statements is FALSE?

- A) The WACC can be used throughout the firm as the company wide cost of capital for new investments that are of comparable risk to the rest of the firm and that will not alter the firm's debt-equity ratio.
- B) A disadvantage of the WACC method is that you need to know how the firm's leverage policy is implemented to make the capital budgeting decision.
- C) The intuition for the WACC method is that the firm's weighted average cost of capital represents the average return the firm must pay to its investors (both debt and equity holders) on an after-tax basis.
- D) To be profitable, a project should generate an expected return of at least the firm's weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=816242>

Question 1430

If the interest rate is 7%, the NPV of alternative #3 is closest to:

- A) \$350,000
- B) \$357,196
- C) \$370,561
- D) \$401,121

Answer: <https://biology-forums.com/index.php?topic=814736>

Question 1431

Assume that once her book is finished, it is expected to generate royalties of \$5 million in the first year (paid at the end of the year) and these royalties are expected to decrease by 40% per year in perpetuity. Assuming that Palin's cost of capital is 10% and given these royalties payments, the NPV of Palin's book deal is closest to:

- A) \$3.75 million
- B) \$12.20 million
- C) \$13.00 million
- D) \$13.75 million

Answer: <https://biology-forums.com/index.php?topic=815082>

Question 1432

Which of the following statements is FALSE?

- A) Estimating dividends, especially for the distant future, is difficult.
- B) A firm can only pay out its earnings to investors or reinvest their earnings.
- C) Successful young firms often have high initial earnings growth rates.
- D) According to the constant dividend growth model, the value of the firm depends on the current dividend level, divided by the equity cost of capital plus the growth rate.

Answer: <https://biology-forums.com/index.php?topic=815272>

Question 1433

Assuming that Tom wants to maintain the current volatility of his portfolio, then the maximum expected return that Tom could achieve by investing in the market portfolio and risk-free investment is closest to:

- A) 13%

- B) 15%
- C) 16%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=815579>

Question 1434

The NPV profile:

- A) shows the payback period—the point at which NPV is positive.
- B) shows the internal rate of return—the point at which NPV is zero.
- C) shows the NPV over a range of discount rates.
- D) B and C are correct.

Answer: <https://biology-forums.com/index.php?topic=815098>

Question 1435

If KT expects to maintain a debt to equity ratio for this project of 1 then KT's project based WACC, r_{wacc} , for this project is closest to:

- A) 11.1%
- B) 10.8%
- C) 9.6%
- D) 10.5%

Answer: <https://biology-forums.com/index.php?topic=816304>

Question 1436

The change in Luther's quick ratio from 2008 to 2009 is closest to:

- A) a decrease of .10
- B) an increase of .10
- C) a decrease of .15
- D) an increase of .15

Answer: <https://biology-forums.com/index.php?topic=814666>

Question 1437

You expect that Bean Enterprises will have earnings per share of \$2 for the coming year. Bean plans to retain all of its earnings for the next three years. For the subsequent two years, the firm plans on retaining 50% of its earnings. It will then retain only 25% of its earnings from that point forward. Retained earnings will be invested in projects with an expected return of 20% per year. If Bean's equity cost of capital is 12%, then the price of a share of Bean's stock is closest to:

- A) \$17.00
- B) \$10.75
- C) \$27.75
- D) \$43.50

Answer: <https://biology-forums.com/index.php?topic=815289>

Question 1438

Which of the following statements is FALSE?

- A) When a firm issues new shares that account for a significant percentage of its outstanding shares, the transaction is called a leveraged recapitalization.
- B) MM Proposition I applies to capital structure decisions made at any time during the life of the firm.
- C) By choosing positive-NPV projects that are worth more than their initial investment, the firm can enhance its value.
- D) Holding fixed the cash flows generated by the firm's assets, however, the choice of capital structure does not change the value of the firm.

Answer: <https://biology-forums.com/index.php?topic=815864>

Question 1439

You expect KT Industries (KTI) will have earnings per share of \$3 this year and expect that they will pay out \$1.50 of these earnings to shareholders in the form of a dividend. KTI's return on new investments is 15% and their equity cost of capital is 12%. The expected growth rate for KTI's dividends is closest to:

- A) 6.0%
- B) 7.5%
- C) 4.5%
- D) 3.0%

Answer: <https://biology-forums.com/index.php?topic=815286>

Question 1440

If Flagstaff currently maintains a .5 debt to equity ratio, then the value of Flagstaff's interest tax shield is closest to:

- A) \$11 million
- B) \$18 million
- C) \$10 million
- D) \$24 million

Answer: <https://biology-forums.com/index.php?topic=815972>

Question 1441

The amount that the price of bond "B" will change if its yield to maturity increases from 7% to 8% is closest to:

- A) -\$36
- B) \$9
- C) \$36
- D) \$39

Answer: <https://biology-forums.com/index.php?topic=815017>

Question 1442

Luther's quick ratio for 2008 is closest to:

- A) 0.77
- B) 0.87
- C) 1.15
- D) 1.30

Answer: <https://biology-forums.com/index.php?topic=814665>

Question 1443

At an annual interest rate of 7%, the present value of this timeline in year 0 is closest to:

- A) \$3080
- B) \$3600
- C) \$3770
- D) \$4035

Answer: <https://biology-forums.com/index.php?topic=814831>

Question 1444

The price today of a three-year default-free security with a face value of \$1000 and an annual coupon rate of 4% is closest to:

- A) \$1002.78
- B) \$1003.31
- C) \$1028.50
- D) \$1028.61

Answer: <https://biology-forums.com/index.php?topic=815030>

Question 1445

Which of the following statements is FALSE?

- A) Firms with steady, reliable cash flows, such as utility companies, are able to use high levels of debt and still have a very low probability of default.
- B) If there were no costs of financial distress, the value of the firm would continue to increase with increasing debt until the interest on the debt exceeds the firm's earnings before interest and taxes and the tax shield is exhausted.
- C) The costs of financial distress reduce the value of the levered firm, VL. The amount of the reduction decreases with the probability of default, which in turn increases with the level of the debt D.
- D) The tradeoff theory states that firms should increase their leverage until it reaches the level D* for which VL is maximized.

Answer: <https://biology-forums.com/index.php?topic=816075>

Question 1446

The variance on a portfolio that is made up of equal investments in Duke Energy and Microsoft stock is closest to:

- A) .065
- B) 0.090
- C) .149
- D) -0.020

Answer: <https://biology-forums.com/index.php?topic=815501>

Question 1447

An agency problem can be alleviated by:

- A) requiring all firms to be sole proprietorships.

- B) compensating managers in such a way that acting in the best interest of shareholders is also in the best interest of managers.
C) asking managers to take on more risk than they are comfortable taking.
D) A and B.

Answer: <https://biology-forums.com/index.php?topic=814593>

Question 1448

Wyatt Oil is contemplating issuing a 20-year bond with semiannual coupons, a coupon rate of 5%, and a face value of \$1000. Wyatt Oil believes it can get a AAA rating from Standard and Poor's for this bond issue. If Wyatt Oil is successful in getting a AAA rating, then the issue price for these bonds would be closest to:

- A) \$1035
B) \$975
C) \$1000
D) \$1026

Answer: <https://biology-forums.com/index.php?topic=815060>

Question 1449

Suppose over the next year Ball has a return of 12.5%, Lowes has a return of 20%, and Abbott Labs has a return of -10%. The value of your portfolio over the year is:

- A) \$21,000
B) \$20,000
C) \$20,700
D) \$21,500

Answer: <https://biology-forums.com/index.php?topic=815479>

Question 1450

The after tax interest expense in 2010 is closest to:

- A) 0
B) 2856
C) 5304
D) 8160

Answer: <https://biology-forums.com/index.php?topic=816450>

Question 1451

Assume that in addition to 1.25 billion common shares outstanding, Luther has stock options given to employees valued at \$2 billion. The market value of Luther's non-cash assets is closest to:

- A) \$22 billion
B) \$20 billion
C) \$25 billion
D) \$18 billion

Answer: <https://biology-forums.com/index.php?topic=815875>

Question 1452

Assume that Omicron uses the entire \$50 million in excess cash to pay a special dividend. Omicron's cum-dividend price is closest to:

- A) \$50.00
B) \$40.00
C) \$5.00
D) \$45.00

Answer: <https://biology-forums.com/index.php?topic=816162>

Question 1453

List five general categories of indirect costs associated with bankruptcy.

Answer: <https://biology-forums.com/index.php?topic=816058>

Question 1454

Suppose that to raise the funds for the initial investment the firm borrows \$40,000 at the risk free rate and issues new equity to cover the remainder. In this situation, the cash flow that equity holders will receive in one year in a weak economy is closest to:

- A) \$90,000
B) \$0
C) \$50,000
D) \$48,000

Answer: <https://biology-forums.com/index.php?topic=815842>

Question 1455

The weighted average cost of capital for "Eenie" is closest to:

- A) 6.0%
- B) 6.5%
- C) 7.5%
- D) 5.5%

Answer: <https://biology-forums.com/index.php?topic=816250>

Question 1456

Which of the following statements is FALSE?

- A) When a firm fails to make a required payment to debt holders, it is in bankruptcy.
- B) With perfect capital markets, the risk of bankruptcy is not a disadvantage of debt—bankruptcy simply shifts the ownership of the firm from equity holders to debt holders without changing the total value available to all investors.
- C) Bankruptcy is a long and complicated process that imposes both direct and indirect costs on the firm and its investors that the assumption of perfect capital markets ignores.
- D) Bankruptcy is rarely simple and straightforward—equity holders don't just "hand the keys" to debt holders the moment the firm defaults on a debt payment.

Answer: <https://biology-forums.com/index.php?topic=816045>

Question 1457

Which of the following statements is FALSE?

- A) The expected return of a portfolio should correspond to the portfolio's beta.
- B) Graphically the line through the risk-free investment and the market portfolio is called the capital market line (CML).
- C) The beta of a portfolio is the weighted average beta of the securities in the portfolio.
- D) By holding a negative beta security, an investor can reduce the overall market risk of her portfolio.

Answer: <https://biology-forums.com/index.php?topic=815585>

Question 1458

What alternative investment has the lowest possible volatility while having the same expected return as Google?

- A) -25% in the risk-free asset and +125% in the market portfolio
- B) -20% in the risk-free asset and +120% in the market portfolio
- C) 0% in the risk-free asset and +100% in the market portfolio
- D) 20% in the risk-free asset and +80% in the market portfolio

Answer: <https://biology-forums.com/index.php?topic=815554>

Question 1459

Rearden Metal has no debt, and maintains a policy of holding \$50 million in excess cash reserves, invested in risk free treasury securities currently yielding 4%. If Rearden is in the 40% marginal tax bracket, the cost of permanently maintaining this \$50 million reserve is closest to:

- A) \$0.8 million
- B) \$1.2 million
- C) \$20.0 million
- D) \$30.0 million

Answer: <https://biology-forums.com/index.php?topic=815954>

Question 1460

Consider a five-year, default-free bond with an annual coupon rate of 5% and a face value of \$1000. The YTM on this bond is closest to:

- A) 3.85%
- B) 4.20%
- C) 4.35%
- D) 4.40%

Answer: <https://biology-forums.com/index.php?topic=815032>

Question 1461

Which of the following statements is FALSE?

- A) With no debt, the WACC is equal to the unlevered equity cost of capital.
- B) With perfect capital markets, a firm's WACC is dependent of its capital structure and is equal to its equity cost of capital only the firm it is unlevered.
- C) As the firm borrows at the low cost of capital for debt, its equity cost of capital rises, but the net effect is that the firm's WACC is unchanged.
- D) Although debt has a lower cost of capital than equity, leverage does not lower a firm's WACC.

Answer: <https://biology-forums.com/index.php?topic=815894>

Question 1462

Which of the following statements is FALSE?

- A) Because interest rates may be quoted for different time intervals, it is often necessary to adjust the interest rate to a time period that matches that of our cash flows.
- B) The effective annual rate indicates the amount of interest that will be earned at the end of one year.
- C) The annual percentage rate indicates the amount of simple interest earned in one year.
- D) The annual percentage rate indicates the amount of interest including the effect of compounding.

Answer: <https://biology-forums.com/index.php?topic=814892>

Question 1463

If the risk-free rate is 3% and the market risk premium is 5%, then the CAPM's predicted expected return for Nielson Motors is closest to:

- A) 8.5%
- B) 9.0%
- C) 9.5%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=815781>

Question 1464

If Rockwood finances their expansion by issuing new stock, what will Rockwood's cost of equity capital be?

- A) 12%
- B) 15%
- C) 8%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=815923>

Question 1465

Which of the following statements is FALSE?

- A) A conclusion of the CAPM that investors should hold the market portfolio only if they have high quality information.
- B) A conclusion of the CAPM that investors should hold the market portfolio even if they do not have high trading skills.
- C) Even naive investors with no information should hold the market portfolio.
- D) The CAPM assumption of homogeneous expectations is not necessarily a good description of the real world.

Answer: <https://biology-forums.com/index.php?topic=815756>

Question 1466

Fill in the table below showing the payments debt and equity holders of each firm will receive given each of the two possible levels of free cash flows:

	Without	With
Free Cash Flow	Interest Payments	Equity Dividends
1000	Interest Payments	Equity Dividends
2000		

Answer: <https://biology-forums.com/index.php?topic=815878>

Question 1467

Calculate the debt capacity of Omicron's new project for years 0, 1, and 2.

Answer: <https://biology-forums.com/index.php?topic=816263>

Question 1468

The idea that claims in one's self-interest are credible only if they are supported by actions that would be too costly to take if the claims were untrue is known as the:

- A) pecking order hypothesis.
- B) credibility principle.
- C) lemons principle.
- D) signaling theory of debt.

Answer: <https://biology-forums.com/index.php?topic=816132>

Question 1469

What are the four financial statements that all public companies must produce?

Answer: <https://biology-forums.com/index.php?topic=814611>

Question 1470

Accounts payable is a:

- A) long-term liability.
- B) current asset.
- C) long-term asset.
- D) current liability.

Answer: <https://biology-forums.com/index.php?topic=814614>

Question 1471

Compute the yield to maturity for each of the five zero-coupon bonds.

Answer: <https://biology-forums.com/index.php?topic=814992>

Question 1472

The person charged with running the corporation by instituting the rules and policies set by the board of directors is called:

- A) the chief operating officer.
- B) the company president.
- C) the chief executive officer.
- D) the chief financial officer.

Answer: <https://biology-forums.com/index.php?topic=814586>

Question 1473

Assuming that this bond trades for \$1112, then the YTM for this bond is closest to:

- A) 8.0%
- B) 3.4%
- C) 6.8%
- D) 9.2%

Answer: <https://biology-forums.com/index.php?topic=814984>

Question 1474

You currently own \$100,000 worth of Wal-Mart stock. Suppose that Wal-Mart has an expected return of 14% and a volatility of 23%. The market portfolio has an expected return of 12% and a volatility of 16%. The risk-free rate is 5%. Assuming the CAPM assumptions hold, what alternative investment has the lowest possible volatility while having the same expected return as Wal-Mart? What is the volatility of this portfolio?

Answer: <https://biology-forums.com/index.php?topic=815582>

Question 1475

If Rockwood is able to repurchase shares prior to the market becoming aware of the new information regarding Rockwood's true value, then the number of shares outstanding following the repurchase is closest to:

- A) 92 million
- B) 10 million
- C) 75 million
- D) 90 million

Answer: <https://biology-forums.com/index.php?topic=816225>

Question 1476

Which of the following statements is FALSE?

- A) In perfect capital markets, holding fixed the investment policy of a firm, the firm's choice of dividend policy is irrelevant and does not affect the initial share price.
- B) In a perfect capital market, when a dividend is paid, the share price drops by the amount of the dividend when the stock begins to trade ex-dividend.
- C) In perfect capital markets, an open market share repurchase has no effect on the stock price, and the stock price is the same as the ex-dividend price if a dividend were paid instead.
- D) In perfect capital markets, investors are indifferent between the firm distributing funds via dividends or share repurchases. By reinvesting dividends or selling shares, they can replicate either payout method on their own.

Answer: <https://biology-forums.com/index.php?topic=816157>

Question 1477

Suppose that you want to use the 10 year historical average return on Stock A to forecast the expected future return on Stock A. The 95% confidence interval for your estimate of the expected return is closest to:

- A) 13.2% to 19.5%

- B) -4.5% to 37.4%
- C) 6.5% to 26.3%
- D) -15.0% to 47.9%

Answer: <https://biology-forums.com/index.php?topic=815398>

Question 1478

Assume that your capital is constrained, so that you only have \$500,000 available to invest in projects. If you invest in the optimal combination of projects given your capital constraint, then the total NPV for all the projects you invest in will be closest to:

- A) \$111,000
- B) \$69,000
- C) \$80,000
- D) \$58,000

Answer: <https://biology-forums.com/index.php?topic=815162>

Question 1479

The effective tax disadvantage for retaining cash in 2006 is closest to:

- A) 14.75%
- B) 12.50%
- C) 35.00%
- D) 15.00%

Answer: <https://biology-forums.com/index.php?topic=816211>

Question 1480

Which of the following statements is FALSE?

- A) The Sharpe ratio of the portfolio tells us how much our expected return will increase for a given increase in volatility.
- B) We should continue to trade securities until the expected return of each security equals its required return.
- C) The required return is the expected return that is necessary to compensate for the risk that an investment will contribute to the portfolio.
- D) If security i's required return exceeds its expected return, then adding more of it will improve the performance of the portfolio.

Answer: <https://biology-forums.com/index.php?topic=815545>

Question 1481

The price today of a 3 year default free security with a face value of \$1000 and an annual coupon rate of 6% is closest to:

- A) \$1000
- B) \$1021
- C) \$1013
- D) \$1005

Answer: <https://biology-forums.com/index.php?topic=815034>

Question 1482

The standard deviation for the return on a portfolio of 20 type S firms is closest to:

- A) 5.10%
- B) 23.0%
- C) 15.0%
- D) 5.25%

Answer: <https://biology-forums.com/index.php?topic=815436>

Question 1483

If on December 31, 2008 Luther has 8 million shares outstanding trading at \$15 per share, then what is Luther's enterprise value?

Answer: <https://biology-forums.com/index.php?topic=814633>

Question 1484

Which of the following formulas is INCORRECT?

- A) PV of a growing annuity = $C \times$
- B) PV of an annuity = $C \times$
- C) PV of a growing perpetuity =
- D) PV of a perpetuity =

Answer: <https://biology-forums.com/index.php?topic=814845>

Question 1485

Consider an ETF that is made up of one share each of IBM, MRK, and C. The minimum ask price for this ETF in a normal market is closest to:

- A) \$162.85
- B) \$163.00
- C) \$168.00
- D) \$168.10

Answer: <https://biology-forums.com/index.php?topic=814796>

Question 1486

Which of the following statements is FALSE?

- A) In bankruptcy, management is given the opportunity to reorganize the firm and renegotiate with debt holders.
- B) Because a corporation is a separate legal entity, when it fails to repay its debts, the people who lent to the firm, the debt holders are entitled to seize the assets of the corporation in compensation for the default.
- C) As long as the corporation can satisfy the claims of the debt holders, ownership remains in the hands of the equity holders.
- D) If the corporation fails to satisfy debt holders' claims, debt holders may lose control of the firm.

Answer: <https://biology-forums.com/index.php?topic=814590>

Question 1487

A McDonald's Big Mac value meal consists of a Big Mac Sandwich, Large Coke, and a Large Fry. Assuming that there is a competitive market for McDonald's food items, at what price must a Big Mac value meal sell to ensure the absence of an arbitrage opportunity and uphold the law of one price?

- A) \$4.08
- B) \$4.38
- C) \$5.47
- D) \$5.77

Answer: <https://biology-forums.com/index.php?topic=814758>

Question 1488

Consider a bond that pays annually an 8% coupon with 20 years to maturity. The percentage change in the price of the bond if its yield to maturity increases from 5% to 7% is closest to:

- A) 22%
- B) 24%
- C) -22%
- D) -24%

Answer: <https://biology-forums.com/index.php?topic=815014>

Question 1489

The variance of the returns on Stock A from 2000 to 2009 is closest to:

- A) .3145
- B) .0990
- C) .1100
- D) .9890

Answer: <https://biology-forums.com/index.php?topic=815392>

Question 1490

Suppose that to raise the funds for the initial investment the firm borrows \$80,000 at the risk free rate, then the cash flow that equity holders will receive in one year in a strong economy is closest to:

- A) \$0
- B) \$6000
- C) \$33,000
- D) \$10,000

Answer: <https://biology-forums.com/index.php?topic=815839>

Question 1491

A default-free security has an annual coupon rate of 3.25% and sells for par. This bond will mature in:

- A) 1 year
- B) 2 years
- C) 3 years
- D) 4 years

Answer: <https://biology-forums.com/index.php?topic=815031>

Question 1492

Suppose that you are holding a market portfolio and you have invested \$9000 in Rearden Metal. The amount that you have invested in Taggart Transcontinental is closest to:

- A) \$4500
- B) \$6000
- C) \$7715
- D) \$9000

Answer: <https://biology-forums.com/index.php?topic=815651>

Question 1493

Suppose that Luther's beta is 0.9. If the market risk premium is 8% and the risk-free interest rate is 4%, then the expected return for Luther stock is?

- A) 7.6%
- B) 11.6%
- C) 11.2%
- D) 12.9%

Answer: <https://biology-forums.com/index.php?topic=815461>

Question 1494

You expect Whirlpool Corporation (WHR) to have earnings per share of \$6.10 over the coming year. If Whirlpool stock is currently trading at \$87.00 per share, then Whirlpool's P/E ratio is closest to:

- A) 17.00
- B) 13.50
- C) 14.25
- D) 7.00

Answer: <https://biology-forums.com/index.php?topic=815350>

Question 1495

Which of the following statements is FALSE?

- A) We must discount the cash flows from stock based on the equity cost of capital for the stock.
- B) The dividend yield is the percentage return the investor expects to earn from the dividend paid by the stock.
- C) The firm might pay out cash to its shareholders in the form of a dividend.
- D) The dividend yield is the expected annual dividend of a stock, divided by its expected future sale price.

Answer: <https://biology-forums.com/index.php?topic=815296>

Question 1496

The effective monthly discount rate that you should use to evaluate the truck lease is closest to:

- A) 0.487%
- B) 0.498%
- C) 1.500%
- D) 1.535%

Answer: <https://biology-forums.com/index.php?topic=814908>

Question 1497

The present value of receiving \$1000 per year with certainty at the end of the next three years is closest to:

- A) \$2737
- B) \$2723
- C) \$2733
- D) \$2744

Answer: <https://biology-forums.com/index.php?topic=814939>

Question 1498

Which of the following statements is FALSE?

- A) Although indirect costs of bankruptcy are difficult to measure accurately, they are typically much smaller than the direct costs of bankruptcy.
- B) Bankruptcy protection can be used by management to delay the liquidation of a firm that should be shut down.
- C) Because many aspects of the bankruptcy process are independent of the size of the firm, the costs are typically higher, in percentage terms, for smaller firms.
- D) Aside from the direct legal and administrative costs of bankruptcy, many other indirect costs are associated with financial distress (whether or not the firm has formally filed for bankruptcy).

Answer: <https://biology-forums.com/index.php?topic=816052>

Question 1499

Which of the following statements regarding perpetuities is FALSE?

- A) To find the value of a perpetuity one cash flow at a time would take forever.
- B) A perpetuity is a stream of equal cash flows that occurs at regular intervals and lasts forever.
- C) PV of a perpetuity =
- D) One example of a perpetuity is the British government bond called a consol.

Answer: <https://biology-forums.com/index.php?topic=814840>

Question 1500

Consider the following list of projects:

Project Investment NPV

A 405,000 18,000

B 600,000 90,000

C 375,000 60,000

D 450,000 6000

E 525,000 30,000

F 225,000 30,000

G 240,000 27,000

H 600,000 60,000

I 150,000 12,000

J 270,000 30,000

You are given a budget of only \$1,800,000 to invest in projects. Which projects will you select, in what order will you select them, and why?

Answer: <https://biology-forums.com/index.php?topic=815166>

Question 1501

Which of the following formulas is INCORRECT?

- A) Capital Gains Rate =
- B) Dividend Yield =
- C) $P_0 = \frac{D}{r} + \frac{P_1}{1+r}$
- D) $r_E = \text{Capital Gains Rate} + \text{Dividend Yield}$

Answer: <https://biology-forums.com/index.php?topic=815299>

Question 1502

Given Nielson's current share price, if Nielson's equity cost of capital is 13%, then Nielson's expected growth rate is closest to:

- A) 5%
- B) 6%
- C) 7%
- D) 8%

Answer: <https://biology-forums.com/index.php?topic=815360>

Question 1503

Suppose you are a shareholder in Galt industries holding 100 shares, and you disagree with this decision to delever the firm. You can undo the effect of this decision by

- A) borrowing \$1500 and buying 60 shares of stock.
- B) selling 32 shares of stock and lending \$800.
- C) borrowing \$1000 and buying 40 shares of stock.
- D) selling 40 shares of stock and lending \$1000.

Answer: <https://biology-forums.com/index.php?topic=815851>

Question 1504

The amount that the price of bond "D" will change if its yield to maturity increases from 8% to 9% is closest to:

- A) -\$36
- B) -\$39
- C) \$36
- D) \$9

Answer: <https://biology-forums.com/index.php?topic=815018>

Question 1505

Your estimate of the debt beta for Taggart Transcontinental would be:

- A) 0.05
- B) 0.10
- C) 0.17
- D) 1.00

Answer: <https://biology-forums.com/index.php?topic=815702>

Question 1506

Consider a portfolio consisting of only Microsoft and Wal-Mart stock. Calculate the expected return on such a portfolio when the weight on Microsoft stock is 0%, 25%, 50%, 75%, and 100%

Answer: <https://biology-forums.com/index.php?topic=815527>

Question 1507

Which of the following statements is FALSE?

- A) The value of a firm is equal to the amount of money the firm can raise by issuing securities.
- B) By reducing a firm's corporate tax liability, debt allows the firm to pay more of its cash flows to investors.
- C) Equity investors must pay taxes on dividends but not capital gains.
- D) For individuals, interest payments received from debt are taxed as income.

Answer: <https://biology-forums.com/index.php?topic=816004>

Question 1508

Luther's Net Profit Margin for the year ending December 31, 2008 is closest to:

- A) 1.8%
- B) 2.7%
- C) 5.4%
- D) 16.7%

Answer: <https://biology-forums.com/index.php?topic=814670>

Question 1509

The beginning of the modern theory of finance was marked by:

- A) the approach used by Modigliani and Miller.
- B) the approach used by John and Williams.
- C) the approach taken by Berk and DeMarzo.
- D) the approach taken by Dan Harris.

Answer: <https://biology-forums.com/index.php?topic=815931>

Question 1510

Which of the following statements is FALSE?

- A) To determine the true tax benefit of leverage, we need to evaluate the combined effect of both corporate and personal taxes.
- B) A personal tax disadvantage for debt causes the WACC to decline more slowly with leverage than it otherwise would.
- C) Personal taxes have an indirect effect on the firm's weighted average cost of capital.
- D) In the United States and many other countries, capital gains from equity have historically been taxed more heavily than interest income.

Answer: <https://biology-forums.com/index.php?topic=816006>

Question 1511

Your son is about to start kindergarten in a private school. Currently, the tuition is \$12,000 per year, payable at the start of the school year. You expect annual tuition increases to average 6% per year over the next 13 years. Assuming that you son remains in this private school through high school and that your current interest rate is 7%, then the present value of your son's private school education is closest to:

- A) \$332,300
- B) \$137,900
- C) \$155,800
- D) \$156,000

Answer: <https://biology-forums.com/index.php?topic=814859>

Question 1512

Assume that Omicron uses the entire \$50 million in excess cash to pay a special dividend. The amount of the special dividend is closest to:

- A) \$5.00
- B) \$9.00
- C) \$4.00
- D) \$4.50

Answer: <https://biology-forums.com/index.php?topic=816160>

Question 1513

If Wyatt adjusts its debt continuously to maintain a constant debt-equity ratio of 50%, then the appropriate WACC for this new project is closest to:

- A) 7.5%
- B) 8.6%
- C) 10.3%
- D) 10.8%

Answer: <https://biology-forums.com/index.php?topic=816422>

Question 1514

Assuming that the risk of the tax shield is only 6% even though the debt pays 8%, then the present value of LCMS' interest tax shield is closest to:

- A) \$24.5 million
- B) \$18 million
- C) \$33.0 million
- D) \$20.0 million

Answer: <https://biology-forums.com/index.php?topic=815980>

Question 1515

If the discount rate for project A is 16%, then what is the NPV for project A?

Answer: <https://biology-forums.com/index.php?topic=815146>

Question 1516

If the expected return on the market is 11% and the expected return of investing in Merck is 10.35%, then the risk-free rate must be:

- A) 3.0%
- B) 4.0%
- C) 4.5%
- D) 5.0%

Answer: <https://biology-forums.com/index.php?topic=815459>

Question 1517

The cost of capital for a project with the same beta as Merck's stock is closest to:

- A) 11.2%
- B) 12.8%
- C) 12.4%
- D) 11.6%

Answer: <https://biology-forums.com/index.php?topic=815469>

Question 1518

You are a shareholder in a "C" corporation. This corporation earns \$4 per share before taxes. After it has paid taxes, it will distribute the remainder of its earnings to you as a dividend. The dividend is income to you, so you will then pay taxes on these earnings. The corporate tax rate is 35% and your tax rate on dividend income is 15%. The effective tax rate on your share of the corporations earnings is closest to:

- A) 15%
- B) 35%
- C) 45%
- D) 50%

Answer: <https://biology-forums.com/index.php?topic=814582>

Question 1519

Which of the following statements is FALSE?

- A) If the profit opportunities from having private information are large, other individuals will attempt to gain the expertise and devote the resources needed to acquire it.
- B) When private information is relegated to the hands of a relatively small number of investors, these investors may be able to profit by trading on their information.
- C) When a buyer seeks to buy a stock, the willingness of other parties to sell the same stock suggests that they value the stock differently.
- D) Since stock markets aggregate the information and view of many different investors, we expect the stock price to react slowly to new publicly available information as the investors continue to trade until a consensus is reached as to the new value of the stock.

Answer: <https://biology-forums.com/index.php?topic=815358>

Question 1520

The expected overall payoff to Bank B is:

- A) \$5,000,000
- B) \$6,000,000
- C) \$94,000,000
- D) \$95,000,000

Answer: <https://biology-forums.com/index.php?topic=815417>

Question 1521

Interest on James Taggart's credit card balances are compounded daily at an effect annual rate of 14.91%. The APR on his credit card is closest to:

- A) 13.90%
- B) 13.95%
- C) 14.91%
- D) 16.08%

Answer: <https://biology-forums.com/index.php?topic=814905>

Question 1522

Galt's asset beta (ie the beta of its operating assets) is closest to:

- A) 1.1
- B) 1.2
- C) 1.3
- D) 1.4

Answer: <https://biology-forums.com/index.php?topic=815885>

Question 1523

A company that manufactures copper piping is offering to trade you 5925 tons of low-grade copper ore for 4000 tons of high-grade copper ore. Assuming you currently have 4000 tons of high-grade ore, what are the total benefits and added benefits of taking the trade?

Answer: <https://biology-forums.com/index.php?topic=814721>

Question 1524

Which of the following is NOT a step in valuation using the flow to equity method?

- A) Determine the equity cost of capital, r_E .
- B) Compute the equity value, E , by discounting the free cash flow to equity using the equity cost of capital.
- C) Determine the free cash flow to equity of the investment.
- D) Determine the before-tax cost of capital, r_U .

Answer: <https://biology-forums.com/index.php?topic=816287>

Question 1525

The payback period for project Alpha is closest to:

- A) 3.2 years
- B) 2.9 years
- C) 3.1 years
- D) 2.6 years

Answer: <https://biology-forums.com/index.php?topic=815130>

Question 1526

If Rosewood had no interest expense, its net income would be closest to:

- A) \$405 million
- B) \$160 million
- C) \$450 million
- D) \$290 million

Answer: <https://biology-forums.com/index.php?topic=815943>

Question 1527

The most senior financial manager in a corporation is usually called:

- A) the chief executive officer.
- B) the chief financial officer.
- C) the chief operating officer.
- D) the chairman of the board.

Answer: <https://biology-forums.com/index.php?topic=814591>

Question 1528

Which of the following statements is FALSE?

- A) Even though firms have not issued new equity, the market value of equity has risen over time as firms have grown.
- B) While firms seem to prefer debt when raising external funds, not all investment is externally funded.
- C) To receive the full tax benefits of leverage a firm needs to use 100% debt financing.
- D) If bankruptcy is costly, these costs might offset the tax advantages of debt financing.

Answer: <https://biology-forums.com/index.php?topic=816021>

Question 1529

If the current rate of interest is 8%, then the present value of an investment that pays \$1000 per year and lasts 20 years is closest to:

- A) \$18,519
- B) \$45,761
- C) \$9818
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=814850>

Question 1530

Which of the following includes other sources of income or expenses that arise from activities that are not a central part of a company's business?

- A) Earnings Before Interest and Taxes (EBIT)
- B) Gross Profit
- C) Operating Income
- D) Operating Expenses

Answer: <https://biology-forums.com/index.php?topic=814637>

Question 1531

If the risk-free rate is 3% and the market risk premium is 5%, then the CAPM's predicted expected return for Wyatt Oil is closest to:

- A) 7.0%
- B) 8.5%
- C) 9.0%
- D) 9.5%

Answer: <https://biology-forums.com/index.php?topic=815780>

Question 1532

Suppose that MI has zero-coupon debt with a \$125 million face value due next year. The total value of MI with leverage is closest to:

- A) \$133 million
- B) \$140 million
- C) \$147 million
- D) \$125 million

Answer: <https://biology-forums.com/index.php?topic=816035>

Question 1533

Pfizer Inc. (PFE) stock is currently trading on the NYSE with a quoted bid of \$18.35 and an ask price of \$18.40. At the same time NASDAQ dealers are posting for following bid and ask prices for PFE:

Dealer Bid Ask

1 \$18.38 \$18.43

2 \$18.30 \$18.34

3 \$18.36 \$18.39

Trading with which of these NASDAQ dealers provides an arbitrage opportunity when compared to the NYSE quotes?

- A) Only NASDAQ dealer #1
- B) Only NASDAQ dealer #2
- C) Only NASDAQ dealer #3
- D) Both NASDAQ dealer #1 and dealer #3
- E) None of the above

Answer: <https://biology-forums.com/index.php?topic=814785>

Question 1534

Various trading strategies appear to offer non-zero alphas when we examine real world data. If indeed these alphas are positive, it could be explained by any of the following EXCEPT:

- A) Investors are systematically ignoring positive-NPV investment opportunities.

- B) The market portfolio is inefficient, but the market portfolio proxy used to calculate the alphas is efficient.
C) A stock's beta with the market portfolio does not adequately measure a stock's systematic risk.
D) The positive alpha trading strategies contain risk that investors are unwilling to bear but the CAPM does not capture.

Answer: <https://biology-forums.com/index.php?topic=815798>

Question 1535

Assuming the appropriate YTM on the Sisyphian bond is 7.5%, then the price that this bond trades for will be closest to:

- A) \$1045
B) \$691
C) \$1000
D) \$957

Answer: <https://biology-forums.com/index.php?topic=814980>

Question 1536

Assume that you own 2500 shares of Omicron stock and that Omicron uses the entire \$50 million to pay a special dividend. Suppose you are unhappy with Omicron's decision and would prefer that Omicron used the excess cash to repurchase shares. The number of shares that you would have to buy in order to undo the special cash dividend that Omicron paid is closest to:

- A) 125
B) 275
C) 250
D) 310

Answer: <https://biology-forums.com/index.php?topic=816168>

Question 1537

If Wyatt Oil distributes the \$70 million as a share repurchase, then the number of shares outstanding after the repurchase will be closest to:

- A) 16.0 million
B) 16.5 million
C) 17.5 million
D) 18.0 million

Answer: <https://biology-forums.com/index.php?topic=816154>

Question 1538

What is the excess return for Treasury Bills?

- A) 0%
B) -8.4%
C) -2.7%
D) -1.4%

Answer: <https://biology-forums.com/index.php?topic=815413>

Question 1539

The price per share of the ETF in a normal market is:

Answer: <https://biology-forums.com/index.php?topic=814781>

Question 1540

The incremental unlevered net income in the first year for the Sisyphian Corporation's project is closest to:

- A) \$8000
B) \$18,000
C) \$5200
D) \$11,700

Answer: <https://biology-forums.com/index.php?topic=815194>

Question 1541

The term _____ measures the sensitivity of the securities returns to:

- A) size.
B) book-to-market.
C) momentum.
D) the overall market.

Answer: <https://biology-forums.com/index.php?topic=815819>

Question 1542

Explain the benefits of incorporation.

Answer: <https://biology-forums.com/index.php?topic=814583>

Question 1543

The IRR for Larry's three movie deal offer is closest to:

- A) 3.5%
- B) 1.6%
- C) -3.5%
- D) -1.6%

Answer: <https://biology-forums.com/index.php?topic=815115>

Question 1544

The total amount of interest that Dagny will pay during the first month of her mortgage is closest to:

- A) \$1110
- B) \$1785
- C) \$1800
- D) \$2245

Answer: <https://biology-forums.com/index.php?topic=814924>

Question 1545

Using the FFC four factor model and the historical average monthly returns, the expected monthly return for GE is closest to:

- A) 0.53%
- B) 0.73%
- C) 0.79%
- D) 0.71%

Answer: <https://biology-forums.com/index.php?topic=815824>

Question 1546

The credit spread on BBB-rated corporate bonds is:

- A) 1.0%
- B) 1.5%
- C) 2.5%
- D) 4.1%

Answer: <https://biology-forums.com/index.php?topic=815052>

Question 1547

Suppose that you want to use the 10 year historical average return on Stock A to forecast the expected future return on Stock A. The standard error of your estimate of the expected return is closest to:

- A) 16.4%
- B) 3.32%
- C) 10.49%
- D) 33.20%

Answer: <https://biology-forums.com/index.php?topic=815396>

Question 1548

Consider an ETF that is made up of one share each of IBM, MRK, and C. The minimum bid price for this ETF in a normal market is closest to:

- A) \$162.85
- B) \$163.00
- C) \$168.00
- D) \$168.10

Answer: <https://biology-forums.com/index.php?topic=814793>

Question 1549

If the risk-free rate of interest is 7.5%, then the value of security "B" is closest to:

- A) \$91.00
- B) \$92.50
- C) \$93.00

D) \$100.00

Answer: <https://biology-forums.com/index.php?topic=814772>

Question 1550

Which of the following statements regarding portfolio "B" is/are correct?

1. Portfolio "B" has a positive alpha.
2. Portfolio "B" is overpriced.
3. Portfolio "B" is less risky than the market portfolio.
4. Portfolio "B" should not exist if the market portfolio is efficient.

- A) 2 and 4
B) 4 only
C) 1, 3, and 4
D) 1 and 4

Answer: <https://biology-forums.com/index.php?topic=815792>

Question 1551

Which of the following statements is FALSE?

- A) Because diversification improves with the number of stocks held in a portfolio an efficient portfolio should be a large portfolio containing many different stocks.
B) The beta of a security is the sensitivity of the security's return to the return of the overall market.
C) An efficient portfolio cannot be diversified further, that is there is no way to reduce the risk of the portfolio without lowering its expected return.
D) We call a portfolio that contains only unsystematic risk an efficient portfolio.

Answer: <https://biology-forums.com/index.php?topic=815451>

Question 1552

The credit spread of the BBB corporate bond is closest to:

- A) 1.0%
B) 5.6%
C) 1.6%
D) 0.8%

Answer: <https://biology-forums.com/index.php?topic=815058>

Question 1553

Should the nominal interest rate ever be negative? Can the real interest rate ever be negative? Explain.

Answer: <https://biology-forums.com/index.php?topic=814942>

Question 1554

The amount of the increase in net working capital for Ideko in 2008 is closest to:

- A) \$4685
B) \$3665
C) \$4090
D) \$5230

Answer: <https://biology-forums.com/index.php?topic=816460>

Question 1555

What rating must Luther receive on these bonds if they want the bonds to be issued at par?

- A) A
B) B
C) BBB
D) AA

Answer: <https://biology-forums.com/index.php?topic=815064>

Question 1556

Which of the following statements is FALSE?

- A) Because of the higher and uncompensated risk involved, no investor should choose a portfolio with a negative alpha.
B) Because the average portfolio of all investors is the market portfolio, the average alpha for all investors is zero.
C) The market portfolio can be inefficient if a significant number of investors misinterpret information and believe they are earning a positive alpha when they are actually earning a negative alpha.
D) If no investor earns a positive alpha, then no investor can earn a negative alpha, and the market portfolio must be efficient.

Answer: <https://biology-forums.com/index.php?topic=815639>

Question 1557

The beta for Sisyphus's new project is closest to:

- A) 1.25
- B) 1.40
- C) 0.70
- D) 1.75

Answer: <https://biology-forums.com/index.php?topic=815550>

Question 1558

The value of Galt's equity using the APV method is closest to:

- A) \$150 million
- B) \$180 million
- C) \$230 million
- D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816331>

Question 1559

Which of the following statements is FALSE?

- A) The process of moving a value or cash flow backward in time is known as discounting.
- B) $FV =$
- C) The process of moving a value or cash flow forward in time is known as compounding.
- D) The value of a cash flow that is moved forward in time is known as its future value.

Answer: <https://biology-forums.com/index.php?topic=814819>

Question 1560

Which of the following statements is FALSE?

- A) Depreciation is a method used for accounting and tax purposes to allocate the original purchase cost of the asset over its life.
- B) Sometimes the firm explicitly forecast free cash flow over a shorter horizon than the full horizon of the project or investment.
- C) Earnings include the cost of capital investments, but do not include non-cash charges, such as depreciation.
- D) Firms often report a different depreciation expense for accounting and for tax purposes.

Answer: <https://biology-forums.com/index.php?topic=815202>

Question 1561

Which of the following statements is FALSE?

- A) The investor's opportunity cost of capital is the best available expected return offered in the market on an investment of comparable risk and term of the cash flows being discounted.
- B) Interest rates we observe in the market will vary based on quoting conventions, the term of investment, and risk.
- C) The opportunity cost of capital is the return the investor forgoes when the investor takes on a new investment.
- D) For a risk-free project, the opportunity cost of capital will typically be greater than the interest rate of U.S. Treasury securities with a similar term.

Answer: <https://biology-forums.com/index.php?topic=814956>

Question 1562

You have an investment opportunity in the United Kingdom that requires an investment of \$500,000 today and will produce a cash flow of £320,000 in one year with no risk. Suppose the risk-free rate of interest in the U.K is 6% and the current competitive exchange rate is \$1.70/£. What is the NPV of this project? Would you take the project?

Answer: <https://biology-forums.com/index.php?topic=814754>

Question 1563

Following the borrowing of \$12 million and subsequent share repurchase, the expected earnings per share for RC is closest to:

- A) \$1.32
- B) \$1.44
- C) \$1.40
- D) \$1.20

Answer: <https://biology-forums.com/index.php?topic=815921>

Question 1564

What alternative investment has the highest possible expected return while having the same volatility as Google?

- A) -25% in the risk-free asset and +125% in the market portfolio

B) -20% in the risk-free asset and +120% in the market portfolio
C) -94% in the risk-free asset and +194% in the market portfolio
D) 6% in the risk-free asset and +94% in the market portfolio
Answer: <https://biology-forums.com/index.php?topic=815556>

Question 1565

What is a sunk cost? Should it be included in the incremental cash flows for a project? Why or why not?
Answer: <https://biology-forums.com/index.php?topic=815197>

Question 1566

If Flagstaff maintains a .5 debt to equity ratio, then Flagstaff's pre-tax WACC is closest to:
A) 10.5%
B) 11.0%
C) 9.0%
D) 10.0%
Answer: <https://biology-forums.com/index.php?topic=815968>

Question 1567

Which of the following statements is FALSE?
A) Aside from taxes, another important difference between debt and equity financing is that debt payments must be made to avoid bankruptcy, whereas firms have no similar obligation to pay dividends or realize capital gains.
B) Increasing the level of debt increases the probability of bankruptcy.
C) A firm receives a tax benefit only if it is paying taxes in the first place.
D) To the extent that a firm has other tax shields, its taxable earnings will be increased and it will rely more heavily on the interest tax shield.
Answer: <https://biology-forums.com/index.php?topic=816022>

Question 1568

Monsters' required return is closest to:
A) 10.0%
B) 13.0%
C) 11.5%
D) 15.5%
Answer: <https://biology-forums.com/index.php?topic=815592>

Question 1569

A stock's _____ measures the stock's return relative to that predicted based on its beta, at the time of some event.
A) excessive abnormal return
B) cumulative average return
C) excessive predicted return
D) cumulative abnormal return
Answer: <https://biology-forums.com/index.php?topic=815778>

Question 1570

The beta for security "Z" is closest to:
A) -1.00
B) -0.25
C) 0.00
D) 0.25
Answer: <https://biology-forums.com/index.php?topic=815440>

Question 1571

Which of the following statements is FALSE?
A) Investors pay less for bonds with credit risk than they would for an otherwise identical default-free bond.
B) The yield to maturity of a defaultable bond is equal to the expected return of investing in the bond.
C) The risk of default, which is known as the credit risk of the bond, means that the bond's cash flows are not known with certainty.
D) For corporate bonds, the issuer may default—that is, it might not pay back the full amount promised in the bond certificate.
Answer: <https://biology-forums.com/index.php?topic=815045>

Question 1572

Which of the following statements is FALSE?

- A) Personal taxes have the potential to offset some of the corporate tax benefits of leverage.
- B) The actual interest tax shield depends on the reduction in the total taxes (both corporate and personal) that are paid.
- C) The amount of money an investor will pay for a security ultimately depends on the benefits the investor will receive—namely, the cash flows the investor will receive before all taxes have been paid.
- D) Just like corporate taxes, personal taxes reduce the cash flows to investors and diminish firm value.

Answer: <https://biology-forums.com/index.php?topic=816005>

Question 1573

Which of the following industries is likely to have the lowest costs of financial distress?

- A) Airlines
- B) Computer software
- C) Biotechnology
- D) Electric utilities

Answer: <https://biology-forums.com/index.php?topic=816077>

Question 1574

You are considering adding a microbrewery on to one of your firm's existing restaurants. This will entail an investment of \$40,000 in new equipment. This equipment will be depreciated straight line over five years. If your firm's marginal corporate tax rate is 35%, then what is the value of the microbrewery's depreciation tax shield in the first year of operation?

- A) \$2800
- B) \$14,000
- C) \$5200
- D) \$26,000

Answer: <https://biology-forums.com/index.php?topic=815210>

Question 1575

If it is managed efficiently, then the expected market value of Luther's assets is closest to:

- A) \$300 million
- B) \$260
- C) \$240
- D) \$280 million

Answer: <https://biology-forums.com/index.php?topic=816128>

Question 1576

Assume that investors hold Google stock in retirement accounts that are free from personal taxes. Also assume that Google's current pre-tax WACC is 14%. If Google were to issue sufficient debt at a pre-tax cost of 7% to give them a debt to value ratio of 0.5, then the Google's after-tax WACC would be closest to:

- A) 10.4%
- B) 12.8%
- C) 13.0%
- D) 15.0%
- E) 16.0%

Answer: <https://biology-forums.com/index.php?topic=815949>

Question 1577

Which of the following equations is INCORRECT?

- A) $E[R_{xp}] = r_f + x(E[R_p] - r_f)$
- B) $E[R_{xp}] = (1 - x)r_f + xE[R_p]$
- C) Sharpe ratio =
- D) $SD(R_{xp}) = xSD(R_p)$

Answer: <https://biology-forums.com/index.php?topic=815536>

Question 1578

What is the conservation of value principle?

Answer: <https://biology-forums.com/index.php?topic=815932>

Question 1579

Which of the following statements is FALSE?

- A) An important consequence of leverage is the risk of bankruptcy.

- B) Whether default occurs depends on the cash flows, not on the relative values of the firm's assets and liabilities.
C) Economic distress is a significant decline in the value of a firm's assets, whether or not it experiences financial distress due to leverage.
D) Modigliani and Miller's results continue to hold in a perfect market even when debt is risky and the firm may default.

Answer: <https://biology-forums.com/index.php?topic=816029>

Question 1580

Which of the following statements is FALSE?

- A) Beta measures the sensitivity of a security to market wide risk factors.
B) Volatility measures total risk, while beta measures only systematic risk.
C) The beta is the expected percentage change in the excess return of the market portfolio for a 1% change in the excess return of a security.
D) Utilities tend to be stable and highly regulated, and thus are insensitive to fluctuations in the overall market.

Answer: <https://biology-forums.com/index.php?topic=815450>

Question 1581

Which of the following statements is FALSE?

- A) Securities that tend to move more than the market have betas lower than 0.
B) Securities whose returns tend to move in tandem with the market on average have a beta of 1.
C) Beta corresponds to the slope of the best fitting line in the plot of the securities excess returns versus the market excess return.
D) The statistical technique that identifies the best-fitting line through a set of points is called linear regression.

Answer: <https://biology-forums.com/index.php?topic=815690>

Question 1582

Which of the following statements is FALSE?

- A) As a practical matter, it is extremely difficult to identify portfolios that are efficient because we cannot measure the expected return and the standard deviation of a portfolio with great accuracy.
B) The portfolios in a multifactor model can be thought of as either risk factors themselves or portfolios of stocks correlated with unobservable risk factors.
C) Each factor beta is the expected percent change in the excess return of a security for a 1% change in the excess return of the factor portfolio.
D) Even if the market portfolio is not efficient, it still must capture all components of systematic risk.

Answer: <https://biology-forums.com/index.php?topic=815818>

Question 1583

Assume that EGI decides to raise the \$100 million through the issuance of new shares prior to the release of the new video game. The number of new shares that EGI will issue is closest to:

- A) 5.0 million
B) 6.25 million
C) 10 million
D) 1.6 million

Answer: <https://biology-forums.com/index.php?topic=816134>

Question 1584

In practice which market index would best be used as a proxy for the market portfolio in the CAPM?

- A) S&P 500
B) Dow Jones Industrial Average
C) U.S. Treasury Bill
D) Wilshire 5000

Answer: <https://biology-forums.com/index.php?topic=815671>

Question 1585

If an investment providing a nominal return of 12.25% only offers a real rate of return of 5.70%, then the inflation rate is closest to:

- A) 5.70%
B) 6.20%
C) 6.55%
D) 12.25%

Answer: <https://biology-forums.com/index.php?topic=814935>

Question 1586

If the discount rate is 15%, then which alternative should the owner choose:

- A) #1
B) #2

- C) #3
- D) either #1 or #2
- E) either #1 or #3

Answer: <https://biology-forums.com/index.php?topic=814742>

Question 1587

If the current rate of interest is 8%, then the future value 20 years from now of an investment that pays \$1000 per year and lasts 20 years is closest to:

- A) \$45,762
- B) \$36,725
- C) \$9818
- D) \$93,219

Answer: <https://biology-forums.com/index.php?topic=814851>

Question 1588

Which of the following statements is FALSE?

- A) A portfolio that consists of a long position in the risk-free investment is known as a levered portfolio.
- B) The optimal portfolio will not depend on the investor's personal tradeoff between risk and return.
- C) The volatility of the risk-free investment is zero.
- D) Our total volatility is only a fraction of the volatility of the efficient portfolio, based on the amount we invest in the risk free asset.

Answer: <https://biology-forums.com/index.php?topic=815530>

Question 1589

Which of the following statements is FALSE?

- A) An investor will be willing to pay up to the point at which the current price of a share of stock equals the present value of the expected future dividends and the expected future sale price.
- B) The expected total return of a stock should equal the expected return of other investments available in the market with equivalent risk.
- C) The total amount received in dividends and from selling the stock will depend on the investor's investment horizon.
- D) If the current stock price were greater than $P_0 = \frac{D}{r}$, it would be a positive NPV investment, and we would expect investors to rush in and buy it, driving up the stocks price.

Answer: <https://biology-forums.com/index.php?topic=815298>

Question 1590

Which of the following statements is FALSE?

- A) The incremental IRR need not exist.
- B) If a change in the timing of the cash flows does not affect the NPV, then the change in timing will not impact the IRR.
- C) Although the incremental IRR rule can provide a reliable method for choosing among projects, it can be difficult to apply correctly.
- D) When projects are mutually exclusive, it is not enough to determine which projects have positive NPVs.

Answer: <https://biology-forums.com/index.php?topic=815136>

Question 1591

If in the event of distress, the present value of distress costs is equal to \$25 million, then the optimal level of debt for d'Anconia Copper is:

- A) \$50 million
- B) \$60 million
- C) \$70 million
- D) \$80 million

Answer: <https://biology-forums.com/index.php?topic=816071>

Question 1592

The variance of the returns on the Index from 2000 to 2009 is closest to:

- A) .0450
- B) .3400
- C) .1935
- D) .0375

Answer: <https://biology-forums.com/index.php?topic=815391>

Question 1593

The yield to maturity for the two year zero-coupon bond is closest to:

- A) 6.0%
- B) 5.8%
- C) 5.6%

D) 5.5%

Answer: <https://biology-forums.com/index.php?topic=814986>

Question 1594

Assume that capital markets are perfect except for the existence of corporate taxes and that your firm pays 40% of earnings in taxes. If you want to maintain ownership of at least a 50%, then the minimum amount of debt that you must issue to fund the expansion is closest to:

- A) \$19 million
- B) \$18 million
- C) \$16 million
- D) \$20 million

Answer: <https://biology-forums.com/index.php?topic=816118>

Question 1595

In a normal market with transactions costs, is it possible for different investors to place different values on an investment opportunity? Are there any limits on the amount that their values can differ?

Answer: <https://biology-forums.com/index.php?topic=814797>

Question 1596

Which of the following statements is FALSE?

- A) The market portfolio is the efficient portfolio.
- B) Many practitioners believe it is sensible to use the CAPM and the security market line as a practical means to estimate a stock's required return and therefore a firm's equity cost of capital.
- C) If we plot individual securities according to their expected return and beta, the CAPM implies that they should all fall along the CML.
- D) As savvy investors attempt to trade to improve their portfolios, they raise the price and lower the expected return of the positive alpha stocks, and they depress the price and raise the expected return of negative alpha stocks, until the stocks are once again on the security market line and the market portfolio is efficient.

Answer: <https://biology-forums.com/index.php?topic=815588>

Question 1597

Suppose you plan to hold Von Bora stock for one year. The price one would expect to be able to sell a share of Von Bora stock for in one year is closest to:

- A) \$26.50
- B) \$22.70
- C) \$23.15
- D) \$24.10

Answer: <https://biology-forums.com/index.php?topic=815302>

Question 1598

Rearden's equity cost of capital is closest to:

- A) 4.0%
- B) 6.4%
- C) 8.2%
- D) 14.0%

Answer: <https://biology-forums.com/index.php?topic=815280>

Question 1599

The present value of an investment that pays \$1000 in two years and \$5000 in ten years for certain is closest to:

- A) \$3660
- B) \$3687
- C) \$3707
- D) \$4292

Answer: <https://biology-forums.com/index.php?topic=814952>

Question 1600

Assuming that to fund the investment Taggart will take on \$250 million in permanent debt and assuming Taggart will incur a 2% (after-tax) underwriting fee on the new debt issue, the NPV of Taggart's new rail line is closest to:

- A) \$195 million
- B) \$200 million
- C) \$235 million
- D) \$240 million

Answer: <https://biology-forums.com/index.php?topic=816414>

Question 1601

The average annual return on Stock A from 2000 to 2009 is closest to:

- A) 29.9%
- B) 16.40%
- C) 18.2%
- D) 18.7%

Answer: <https://biology-forums.com/index.php?topic=815390>

Question 1602

Based upon the average EV/EBITDA ratio of the comparable firms, if Ideko holds \$6.5 million of cash in excess of its working capital needs, then Ideko's target market value of equity is closest to:

- A) \$155 million
- B) \$157 million
- C) \$165 million
- D) \$193 million

Answer: <https://biology-forums.com/index.php?topic=816437>

Question 1603

Which of the following investments had the largest fluctuations in overall return over the past eighty years?

- A) Small stocks
- B) S&P 500
- C) Corporate bonds
- D) Treasury Bills

Answer: <https://biology-forums.com/index.php?topic=815368>

Question 1604

The beta on Paul's Portfolio is closest to:

- A) 1.5
- B) 1.8
- C) 1.3
- D) 1.0

Answer: <https://biology-forums.com/index.php?topic=815634>

Question 1605

Suppose that Defenestration decides to pay a dividend of only \$2 per share this year and use the remaining \$2 per share to repurchase stock. If Defenestration's payout rate remains constant, then Defenestration's stock price is closest to:

- A) \$50.00
- B) \$22.25
- C) \$32.30
- D) \$30.75

Answer: <https://biology-forums.com/index.php?topic=815333>

Question 1606

Which of the following statements is FALSE?

- A) The U.S. bankruptcy code was created to organize this process so that creditors are treated fairly and the value of the assets is not needlessly destroyed.
- B) Because the assets of the firm might be more valuable if kept together, creditors seizing assets in a piecemeal fashion might destroy much of the remaining value of the firm.
- C) Debt holders can then take legal action against the firm to collect payment by seizing the firm's assets.
- D) Because most firms have multiple creditors, coordination makes it difficult to guarantee that each creditor will be treated fairly.

Answer: <https://biology-forums.com/index.php?topic=816047>

Question 1607

Your estimate of the debt beta for Nielson Motors would be:

- A) 0.10
- B) 0.17
- C) 1.00
- D) 1.68

Answer: <https://biology-forums.com/index.php?topic=815703>

Question 1608

Which of the following statements is FALSE?

- A) If the market portfolio is efficient, then all securities and portfolios must plot on the SML, not just individual stocks.
- B) For most stocks the standard errors of the alpha estimates are large, so it is impossible to conclude that the alphas are statistically different from zero.
- C) It is not difficult to find individual stocks that, in the past have not plotted on the SML.
- D) Small stocks (those with lower market capitalization) have lower average returns.

Answer: <https://biology-forums.com/index.php?topic=815782>

Question 1609

Perrigo's enterprise value is closest to:

- A) \$952.16 million
- B) \$3580.14 million
- C) \$4168.06 million
- D) \$4425.15 million

Answer: <https://biology-forums.com/index.php?topic=814628>

Question 1610

Assume that five years have passed since Wyatt issued this debt. While tax rates have remained at 40%, interest rates have dropped so that Wyatt's current cost of debt capital is now only 4%. Wyatt's annual interest tax shield is now closest to:

- A) \$2.8 million
- B) \$4.2 million
- C) \$40.0 million
- D) \$60.0 million

Answer: <https://biology-forums.com/index.php?topic=815952>

Question 1611

According to Figure 6.5, the percent of countries in default or restructuring debt:

- A) hit an all-time high in 2000-2005.
- B) peaked during World War II.
- C) is high whenever Greece defaults.
- D) is never more than 1/3.

Answer: <https://biology-forums.com/index.php?topic=815068>

Question 1612

If RBC acquires POP, then the NPV of POP tax loss carry forwards to RBC is closest to:

- A) \$92 million
- B) \$236 million
- C) \$262 million
- D) \$320 million

Answer: <https://biology-forums.com/index.php?topic=815257>

Question 1613

The effective tax disadvantage for retaining cash in 2000 is closest to:

- A) 15.00%
- B) 13.35%
- C) 14.75%
- D) 35.00%

Answer: <https://biology-forums.com/index.php?topic=816213>

Question 1614

The volatility of the alternative investment that has the lowest possible volatility while having the same expected return as Google is closest to:

- A) 18.0%
- B) 22.5%
- C) 23.4%
- D) 35.0%

Answer: <https://biology-forums.com/index.php?topic=815555>

Question 1615

You are considering purchasing a new automobile that will cost you \$28,000. The dealer offers you 4.9% APR financing for 60 months (with payments made at the end of the month). Assuming you finance the entire \$28,000 and finance through the dealer, your monthly payments will be closest to:

- A) \$1454
- B) \$527
- C) \$467
- D) \$457

Answer: <https://biology-forums.com/index.php?topic=814910>

Question 1616

If investors believe that others have superior information which they can take advantage of by copying their trades, this can lead to:

- A) an informational cascade effect.
- B) a disposition effect.
- C) a sensation seeking effect.
- D) an overconfidence bias.

Answer: <https://biology-forums.com/index.php?topic=815766>

Question 1617

The NPV for this project is closest to:

- A) \$29,200
- B) \$39,500
- C) \$129,200
- D) \$139,500

Answer: <https://biology-forums.com/index.php?topic=815084>

Question 1618

Which of the following statements is FALSE?

- A) The bond's expected return, which is equal to the firm's debt cost of capital, is less than the yield to maturity if there is a risk of default.
- B) The two best-known bond-rating companies are Standard & Poor's and Dow Jones.
- C) Bonds in the bottom five categories are often called speculative bonds, junk bonds, or high-yield bonds.
- D) Bond ratings encourage widespread investor participation and relatively liquid markets.

Answer: <https://biology-forums.com/index.php?topic=815047>

Question 1619

Suppose that the managers at Rearden Metal will increase risk to maximize the expected payoff to equity holders. If Rearden has \$180 million in debt due in one year, then the expected value of Rearden's assets is closest to:

- A) \$280 million
- B) \$295 million
- C) \$300 million
- D) \$900 million

Answer: <https://biology-forums.com/index.php?topic=816123>

Question 1620

According to study by Berk and van Binsbergen, which risk model determines mutual fund flows?

- A) The CAPM risk-adjusted return
- B) The absolute return
- C) The excess return over T-Bills
- D) Alpha-Beta factors

Answer: <https://biology-forums.com/index.php?topic=815827>

Question 1621

Using the FFC four factor model and the historical average monthly returns, the expected monthly return for IBM is closest to:

- A) 0.79%
- B) 0.53%
- C) 0.71%
- D) 1.01%

Answer: <https://biology-forums.com/index.php?topic=815823>

Question 1622

Another oil refiner is offering to trade you 10,150 Bbls of Alaska North Slope (ANS) crude oil for 10,000 Bbls of West Texas Intermediate (WTI) crude oil. Assuming you currently have 10,000 Bbls of WTI crude, what should you do?

- A) Sell 10,000 Bbls WTI crude on the market and use the proceeds to purchase and refine ANS crude.
- B) Do nothing, refine the 10,000 Bbls of WTI crude.
- C) Trade the 10,000 Bbls WTI crude with the other refiner and refine the 10,150 Bbls of ANS crude.
- D) Trade the 10,000 Bbls WTI crude with the other refiner and then sell the 10,150 Bbls of ANS crude.

Answer: <https://biology-forums.com/index.php?topic=814718>

Question 1623

The assumption that the firm's debt-equity ratio is constant means:

- A) the firm's cost of capital will not fluctuate when it accepts a new project.
- B) corporate taxes are the only imperfection.
- C) the risk of its debt and equity will change when it accepts a new project.
- D) the firm adjusts its leverage to maintain a constant debt-equity ratio in terms of book value.

Answer: <https://biology-forums.com/index.php?topic=816240>

Question 1624

The NPV of this project using the WACC method is closest to:

- A) \$10 million
- B) \$13 million
- C) \$42 million
- D) \$71 million

Answer: <https://biology-forums.com/index.php?topic=816308>

Question 1625

Suppose that Bondi Inc. is a holding company that owns both Pizza Hut and Kentucky Fried Chicken Franchised Restaurants. If the value of Bondi is \$130 million, and the Pizza Hut Franchises are worth \$70 million, then what is the value of the Kentucky Fried Chicken Franchises?

- A) \$60 million
- B) \$70 million
- C) \$130 million
- D) Unable to determine with the information provided

Answer: <https://biology-forums.com/index.php?topic=814767>

Question 1626

The effective tax disadvantage for retaining cash in 2002 is closest to:

- A) 15.00%
- B) 14.75%
- C) 30.00%
- D) 35.00%

Answer: <https://biology-forums.com/index.php?topic=816212>

Question 1627

Common risk is also called:

- A) diversifiable risk.
- B) correlated risk.
- C) uncorrelated risk.
- D) independent risk.

Answer: <https://biology-forums.com/index.php?topic=815415>

Question 1628

Which of the following statements regarding value additivity is FALSE?

- A) The value of a portfolio is equal to the sum of the values of its parts.
- B) The price or value of the entire firm is equal to the sum of the values of all projects and investments within the firm.
- C) To maximize the value of the entire firm, managers should make decisions that maximize NPV.
- D) Value additivity does not have important consequences for the value of the entire firm, only on portfolios of firms.

Answer: <https://biology-forums.com/index.php?topic=814765>

Question 1629

Consider an equally weighted portfolio that contains five stocks. If the average volatility of these stocks is 40% and the average correlation between the stocks is .5, then the volatility of this equally weighted portfolio is closest to:

- A) .17
- B) .03
- C) .41
- D) .19

Answer: <https://biology-forums.com/index.php?topic=815511>

Question 1630

The weight on Wyatt Oil stock in the market portfolio is closest to:

- A) 15%
- B) 20%
- C) 25%
- D) 30%

Answer: <https://biology-forums.com/index.php?topic=815649>

Question 1631

Which of the following statements is FALSE?

- A) The most familiar stock index in the United States is the Dow Jones Industrial Average (DJIA).
- B) A portfolio in which each security is held in proportion to its market capitalization is called a price-weighted portfolio.
- C) The Dow Jones Industrial Average (DJIA) consists of a portfolio of 30 large industrial stocks.
- D) The Dow Jones Industrial Average (DJIA) is a price-weighted portfolio.

Answer: <https://biology-forums.com/index.php?topic=815666>

Question 1632

Luther Industries has outstanding tax loss carryforwards of \$70 million from losses over the past four years. If Luther earns \$15 million per year in pre-tax income from now on, Luther first pays taxes in:

- A) 7 years
- B) 2 years
- C) 4 years
- D) 5 years

Answer: <https://biology-forums.com/index.php?topic=815230>

Question 1633

Suppose that you want to use the 10 year historical average return on Stock B to forecast the expected future return on Stock B. Calculate the 95% confidence interval for your estimate of the expected return.

Answer: <https://biology-forums.com/index.php?topic=815403>

Question 1634

The beta for the market is closest to:

- A) 0.80
- B) 1.00
- C) 1.10
- D) 1.25

Answer: <https://biology-forums.com/index.php?topic=815569>

Question 1635

Assuming your cost of capital is 6 percent, the present value of your expected wage if you accept Wyatt Oil's offer is closest to:

- A) \$138,000
- B) \$140,000
- C) \$144,000
- D) \$150,000

Answer: <https://biology-forums.com/index.php?topic=816043>

Question 1636

At an annual interest rate of 7%, the future value of \$5000 in five years is closest to:

- A) \$3565

- B) \$6750
- C) \$7015
- D) \$7035

Answer: <https://biology-forums.com/index.php?topic=814813>

Question 1637

Wyatt Oil's average historical excess return is closest to:

- A) -2.50%
- B) -3.33%
- C) -4.33%
- D) -5.17%

Answer: <https://biology-forums.com/index.php?topic=815680>

Question 1638

The expected return on the alternative investment having the highest possible expected return while having the same volatility as Google is closest to?

- A) 21.6%
- B) 19.6%
- C) 23.4%
- D) 35.0%

Answer: <https://biology-forums.com/index.php?topic=815557>

Question 1639

Based upon the enterprise value to EBITDA ratio, the value of a share of Texas Trucking is closest to:

- A) \$33.00
- B) \$82.50
- C) \$43.10
- D) \$21.25

Answer: <https://biology-forums.com/index.php?topic=815352>

Question 1640

Which of the following statements is FALSE?

- A) When a firm faces financial distress, shareholders have an incentive not to invest and to withdraw money from the firm if possible.
- B) Because top managers often hold shares in the firm and are hired and retained with the approval of the board of directors, which itself is elected by shareholders, managers will generally make decisions that increase the value of the firm's equity.
- C) An over-investment problem occurs when shareholders have an incentive to invest in risky positive-NPV projects.
- D) A negative-NPV project destroys value for the firm overall.

Answer: <https://biology-forums.com/index.php?topic=816093>

Question 1641

With perfect capital markets, what is the market value of Luther's equity after the share repurchase?

- A) \$15 billion
- B) \$10 billion
- C) \$25 billion
- D) \$20 billion

Answer: <https://biology-forums.com/index.php?topic=815873>

Question 1642

The total amount available to payout to all the investors in Kroger in 2006 is closest to:

- A) \$990 million
- B) \$1525 million
- C) \$1500 million
- D) \$2035 million

Answer: <https://biology-forums.com/index.php?topic=815937>

Question 1643

If the discount rate is 15%, the alternative with the highest NPV is:

- A) #1 with an NPV of approximately \$350,000
- B) #2 with an NPV of approximately \$341,300
- C) #3 with an NPV of approximately \$329,570
- D) #2 with an NPV of approximately \$400,000

E) None of the above

Answer: <https://biology-forums.com/index.php?topic=814740>

Question 1644

The weighted average cost of capital for "Minie" is closest to:

- A) 9.50%
- B) 8.75%
- C) 6.75%
- D) 8.25%

Answer: <https://biology-forums.com/index.php?topic=816252>

Question 1645

Consider a zero coupon bond with 20 years to maturity. The percentage change in the price of the bond if its yield to maturity decreases from 7% to 5% is closest to:

- A) 46%
- B) 17%
- C) 22%
- D) 38%

Answer: <https://biology-forums.com/index.php?topic=815012>

Question 1646

The unlevered cost of capital for "Moe" is closest to:

- A) 8.25%
- B) 7.75%
- C) 8.50%
- D) 10.00%

Answer: <https://biology-forums.com/index.php?topic=816271>

Question 1647

Suppose that Iota is able to invest the \$200 million in excess cash into a project that will increase future free cash flows by 30%. If you were advising the board, what course of action would you recommend, investing the \$200 million in an expansion project that will raise future free cash flows by 30% or use the \$200 million to repurchase shares? Which provides the higher stock price?

Answer: <https://biology-forums.com/index.php?topic=816220>

Question 1648

The distinguishing feature of a corporation is that:

- A) there is no legal difference between the corporation and its owners.
- B) it is a legally defined, artificial being, separate from its owners.
- C) it spreads liability for its corporate obligations to all shareholders.
- D) provides limited liability only to small shareholders.

Answer: <https://biology-forums.com/index.php?topic=814578>

Question 1649

The YTM of a 3 year default free security with a face value of \$1000 and an annual coupon rate of 6% is closest to:

- A) 5.5%
- B) 5.8%
- C) 5.7%
- D) 5.2%

Answer: <https://biology-forums.com/index.php?topic=815036>

Question 1650

Which of the following statements is FALSE?

- A) The principal or face value of a bond is the notional amount we use to compute the interest payments.
- B) Payments are made on bonds until a final repayment date, called the term date of the bond.
- C) The coupon rate of a bond is set by the issuer and stated on the bond certificate.
- D) The promised interest payments of a bond are called coupons.

Answer: <https://biology-forums.com/index.php?topic=814963>

Question 1651

A decrease in the sales of a current project because of the launching of a new project is:

- A) cannibalization.
- B) a sunk cost.
- C) an overhead expense.
- D) irrelevant to the investment decision.

Answer: <https://biology-forums.com/index.php?topic=815183>

Question 1652

The Sarbanes-Oxley Act (SOX) forced companies to validate their internal financial control processes by:

- A) putting strict limits on the amount of non-audit fees (consulting or otherwise) that an accounting firm can earn from a firm that it audits.
- B) requiring the CEO and CFO to return bonuses or profits from the sale of stock that are later shown to be due to misstated financial reports.
- C) requiring auditing firms to have long-standing relationships with their clients and receive lucrative auditing and consulting fees from them.
- D) requiring senior management and the boards of public companies to validate and certify the process through which funds are allocated and controlled.

Answer: <https://biology-forums.com/index.php?topic=814708>

Question 1653

If the ETF is currently trading for \$1200, what arbitrage opportunity is available? What trades would you make?

Answer: <https://biology-forums.com/index.php?topic=814782>

Question 1654

Suppose over the next year Ball has a return of 12.5%, Lowes has a return of 20%, and Abbott Labs has a return of -10%. The weight on Ball Corporation in your portfolio after one year is closest to:

- A) 20.0%
- B) 12.5%
- C) 20.7%
- D) 21.7%

Answer: <https://biology-forums.com/index.php?topic=815480>

Question 1655

Assume that you own 2500 shares of Omicron stock and that Omicron uses the entire \$50 million to repurchase shares. Suppose you are unhappy with Omicron's decision and would prefer that Omicron used the excess cash to pay a special dividend. The number of shares that you would have to sell in order to receive the same amount of cash as if Omicron paid the special dividend is closest to:

- A) 275
- B) 310
- C) 125
- D) 250

Answer: <https://biology-forums.com/index.php?topic=816167>

Question 1656

The cost of _____ is highest for firms that can easily increase the risk of their investments.

- A) asset substitution
- B) debt overhang
- C) debt covenants
- D) debt maturity

Answer: <https://biology-forums.com/index.php?topic=816107>

Question 1657

The forward rate for year 3 (the forward rate quoted today for an investment that begins in two years and matures in three years) is closest to:

- A) 4.5%
- B) 5.0%
- C) 5.2%
- D) 4.6%

Answer: <https://biology-forums.com/index.php?topic=815078>

Question 1658

How do you calculate (mathematically) the present value of a(n):

- (a) perpetuity
- (b) annuity
- (c) growing perpetuity

(d) growing annuity

Answer: <https://biology-forums.com/index.php?topic=814866>

Question 1659

The term as is a(n):

- A) error term that has an expectation of zero and is uncorrelated with either factor.
- B) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the first factor portfolio.
- C) measure of the expected percent change in the excess return of a security for a 1% change in the excess return of the second factor portfolio.
- D) constant term.

Answer: <https://biology-forums.com/index.php?topic=815809>

Question 1660

Galt's free cash flow to equity (FCFE) is closest to:

- A) \$19.2 million
- B) \$20.4 million
- C) \$21.2 million
- D) \$24.0 million

Answer: <https://biology-forums.com/index.php?topic=816335>

Question 1661

Walgreen Company (NYSE: WAG) is currently trading at \$48.75 on the NYSE. Walgreen Company is also listed on NASDAQ and assume it is currently trading on NASDAQ at \$48.50. Does an arbitrage opportunity exist and if so how would you exploit it and how much would you make on a block trade of 100 shares?

- A) No, no arbitrage opportunity exists.
- B) Yes, buy on NASDAQ and sell on NYSE, make \$25.
- C) Yes, buy on NYSE and sell on NASDAQ, make \$25.
- D) Yes, buy on NASDAQ and sell on NYSE, make \$250.

Answer: <https://biology-forums.com/index.php?topic=814760>

Question 1662

Perrigo's market capitalization is closest to:

- A) \$952.16 million
- B) \$3580.14 million
- C) \$4168.06 million
- D) \$4425.15 million

Answer: <https://biology-forums.com/index.php?topic=814626>

Question 1663

A limited liability company is essentially:

- A) a limited partnership without limited partners.
- B) a limited partnership without a general partner.
- C) just another name for a limited partnership.
- D) just another name for a corporation.

Answer: <https://biology-forums.com/index.php?topic=814577>

Question 1664

Two separate firms are considering investing in this project. Firm unlevered plans to fund the entire \$80,000 investment using equity, while firm levered plans to borrow \$45,000 at the risk-free rate and use equity to finance the remainder of the initial investment. Calculate the expected returns for both the levered and unlevered firm.

Answer: <https://biology-forums.com/index.php?topic=815848>

Question 1665

The Debt Capacity for Omicron's new project in year 2 is closest to:

- A) \$55.25
- B) \$38.75
- C) \$22.00
- D) \$33.00

Answer: <https://biology-forums.com/index.php?topic=816258>

Question 1666

Which of the following statements is FALSE?

- A) A firm must balance the tax costs of holding cash with the potential benefits of having to raise external funds in the future.
- B) Paying out excess cash through dividends or share repurchases can boost the stock price by reducing managers' ability and temptation to waste resources.
- C) If there is a reasonable likelihood that future earnings will be insufficient to fund future positive-NPV investment opportunities, a firm may start accumulating cash to make up the difference.
- D) According to the managerial entrenchment theory of payout policy, managers pay out cash only when pressured to do so by the firm's investors.

Answer: <https://biology-forums.com/index.php?topic=816203>

Question 1667

Suppose that Taggart Transcontinental currently has no debt and has an equity cost of capital of 10%. Taggart is considering borrowing funds at a cost of 6% and using these funds to repurchase existing shares of stock. Assume perfect capital markets. If Taggart borrows until they achieved a debt-to-value ratio of 20%, then Taggart's levered cost of equity would be closest to:

- A) 8.0%
- B) 9.2%
- C) 10.0%
- D) 11.0%

Answer: <https://biology-forums.com/index.php?topic=815882>