

### Question 1

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 2

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 3

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 4

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 5

Consider the following formula:

$$V_L = V_U +$$

The term represents:

- A) the value of the firm with leverage.
- B) the present value of the interest tax shield.
- C) the preset value of the future interest payments.
- D) the interest tax shield each year.

Answer: <https://biology-forums.com/index.php?topic=815964>

### Question 6

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 7

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 8

Explain the main differences between the NYSE and NASDAQ stock markets.

Answer: <https://biology-forums.com/index.php?topic=814606>

### Question 9

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 10

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 11

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 12

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 13

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 14

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 15

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 16

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 17

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 18

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 19

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>