

Name:

Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

Online End Term Examination, May 2021

Course: Financial Management
Program: MBA General
Code: FINC 7019

Semester: II
Time 03 hrs.
Max. Marks: 100

SECTION A

- 1. Each Question will carry 5 Marks**
- 2. Instruction: Select the correct answer(s)**

| S. No. | Question | CO |
|--------|---|-----|
| Q 1 | <p>We estimate that there will be two states of the economy, boom and bust, in the next period, with probability of 30% and 70%, respectively. We also estimate that the return on Stock A will be 50% in the boom state and -10% in the bust state. What is the expected return on Stock A?</p> <p>a) 6%</p> <p>b) 7%</p> <p>c) 8%</p> <p>d) 9%</p> <p>e) 10%</p> | CO1 |
| Q2 | <p>Which of the following is an unsystematic risk?</p> <p>a) Bank of Canada released latest news on inflation.</p> <p>b) A mid-sized firm announced the surprise takeover of a small firm.</p> <p>c) IBM stocks just met its earnings expectation.</p> <p>d) Unemployment rises in the European Union.</p> <p>e) The release of Apple's new iPad has increased U.S. real GDP.</p> | CO1 |

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|-----------|--|-------------------|
| <p>Q3</p> | <p>The capital asset pricing model (CAPM) can best be defined as:</p> <ul style="list-style-type: none"> a) Slope of the SML, the difference between the expected return on a market portfolio and the risk-free rate. b) Equation of the SML showing the relationship between expected return and beta. c) Positively sloped straight line displaying the relationship between expected return and beta. d) The amount of systematic risk present in a particular risky asset relative to an average risky asset. e) Principle stating that the expected return on a risky asset depends only on that asset's systematic risk. | <p>CO1</p> |
| <p>Q4</p> | <p>10,000 units of face value bonds were issued at 98. Additionally, there are 1million shares outstanding having an investor's return of 12% and continued dividends of \$3 per share. Given this information, calculate the percentage of equity in relation to total market value.</p> <ul style="list-style-type: none"> a) 71.84% b) 60.75% c) 50% d) 44.28% e) 38.16% | <p>CO1</p> |
| <p>Q5</p> | <p>What is the primary determinant of the cost of capital for an investment?</p> <ul style="list-style-type: none"> a) Use of funds. b) Source of funds. c) LIBOR. d) Prime rate. e) T-bill rate. | <p>CO1</p> |
| <p>Q6</p> | <p>Certain projects can never have a payback period.</p> <p>True</p> <p>False</p> | <p>CO1</p> |

