

College Name: \_\_\_\_\_

Student Name: \_\_\_\_\_ Father's Name: \_\_\_\_\_

Copy No: \_\_\_\_\_

**KARACHI UNIVERSITY BUSINESS SCHOOL**  
**UNIVERSITY OF KARACHI**  
**FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGES**  
**FINANCIAL MANAGEMENT; BA(BS)-601**  
**BBA – VII**

Date: July 6, 2017

Max. Time: 2 Hrs

Max. Marks: 60

**INSTRUCTIONS:**

1. **Attempt any 4 questions. Do not write anything on the question paper, EXCEPT the initials mentioned above.**
2. **Mobile phones or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 Assume that a new law is passed which restricts investors to holding only one asset. A risk-averse investor is considering two possible assets as the asset to be held in isolation. The assets' possible returns and related probabilities (i.e., the probability distributions) are as follows:

<u>Asset X</u>		<u>Asset Y</u>	
<u>P</u>	<u>r</u>	<u>P</u>	<u>r</u>
0.10	-3%	0.05	-3%
0.10	2	0.10	2
0.25	5	0.30	5
0.25	8	0.30	8
0.30	10	0.25	10

Calculate expected rate of return and coefficient of variation and Which asset should be preferred?

Q2 Given the following returns on Stock Q and "the market" during the last three years, what is the difference in the calculated beta coefficient of Stock Q when Year 1 and Year 2 data are used as compared to Year 2 and Year 3 data?

<u>Year</u>	<u>Stock Q</u>	<u>Market</u>
1	6.30%	6.10%
2	-3.70	12.90
3	21.71	16.20

Calculate Beta

- Q3 Assume that you wish to purchase a bond with a 30-year maturity, an annual coupon rate of 10 percent, a face value of \$1,000, and semiannual interest payments. If you require a 9 percent nominal yield to maturity on this investment, what is the maximum price you should be willing to pay for the bond?
- Q4 A stock is not expected to pay a dividend over the next four years. Five years from now, the company anticipates that it will establish a dividend of \$1.00 per share (i.e.,  $D_5 = \$1.00$ ). Once the dividend is established, the market expects that the dividend will grow at a constant rate of 5 percent per year forever. The risk-free rate is 5 percent, the company's beta is 1.2, and the market risk premium is 5 percent. The required rate of return on the company's stock is expected to remain constant. What is the current stock price?
- Q5 A company's balance sheets show a total of \$30 million long-term debt with a coupon rate of 9 percent. The yield to maturity on this debt is 11.11 percent, and the debt has a total current market value of \$25 million. The balance sheets also show that the company has 10 million shares of stock; the total of common stock and retained earnings is \$30 million. The current stock price is \$7.5 per share. The current return required by stockholders,  $r_s$ , is 12 percent. The company has a target capital structure of 40 percent debt and 60 percent equity. The tax rate is 40%. What weighted average cost of capital should you use to evaluate potential projects?
- Q6 For the Cook County Company, the average age of accounts receivable is 60 days, the average age of accounts payable is 45 days, and the average age of inventory is 72 days. Assuming a 365-day year, what is the length of the firm's cash conversion cycle?

**END OF EXAM PAPER**