MB117A

Sl. No.

III Semester M.B.A. Degree Examination, May/June - 2026

MANAGEMENT

Elective-A : Finance

Advanced Corporate Finance

(Non-CBCS Scheme)

Time : 3 Hours **Maximum Marks : 80**

SECTION - A

Answer any Five sub-questions. Each sub-question carries Three marks. (5×3=15)

1. a) Write a note on Fisher's Rate of intersection.

b) What is 'stable dividend policy'?

c) What conditions can cause NPV and IRR methods to produce conflicting ranking?

d) Mention the assumptions of Ideal capital market.

e) How does information asymmetry lead to market failure?

f) What is the aim of corporate finance theory?

g) What is cost of financial distress?

SECTION - B

Answer any Four questions. Each question carries Five marks. (4×5=20)

2. Write a short note on:

a) Atomistic competition and

b) Frictionless markets.

3. Explain three components of incremental cashflows for capital budgeting concept.

4. Briefly explain the types of real options.

5. Compute modified internal rate of return of Plasma Corporation. Ltd., for the following cashflow streams.

Year	Cashflow (in Million)
0	(120)
1	(80)
2	20
3	60
4	80
5	100
6	120

Assume the overall cost of capital of Plasma Corporation Ltd., is 15%. Suggest the company whether the project should accept or reject.

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6. Explain in detail Capital Asset Pricing Model (CAPM).

7. A small manufacturing company which has a capital rationing constrained of Rs. 150 million and this faced with the following investment projects.

Project	Initial Investment (Rs. in millions)	NPV (Rs. in millions)
A	25	10
B	30	25
C	40	20
D	10	10
E	15	10
F	60	20
G	20	10
H	25	20
I	35	10
J	15	05

Which of these projects would you accept? Why?

SECTION - C

Answer any Three questions. Each question carries Ten marks. (3×10=30)

8. Using BSOPM determine the value of debt and equity of levered firm. Assess the risk of debt and equity and calculate the expected return on levered firm's debt and equity. What is WACC? Given parameters are $R_f = 6\%$, V = 200, X= 60, $\sigma = 25\%$, t = 2 year, return on asset = 10%.

9. Valvo Ltd., is evaluating a new project with initial cost of Rs. 20,000. It is expected to generate net cash flow during the first three years with the probability as shown in the below, Risk free rate of return is 10%.

Year 1		Year 2		Year 3	
Probability (Rs.)	Net cashflows	Probability (Rs.)	Net cashflows	Probability (Rs.)	Net cashflows
0.10	6000	0.10	4000	0.10	2000
0.25	8000	0.25	6000	0.25	4000
0.30	10,000	0.30	8000	0.30	6000
0.25	12,000	0.25	10,000	0.25	8000
0.10	14,000	0.10	12,000	0.10	10,000

Calculate the expected NPV and SD of NPV's of the above projects. Assuming that the cash flows are independent.

10. Discuss the various sources of long term finances for a project.

11. How does traditional trade off theory ensure tradeoff between tax shield and cost of financial distress? Discuss.

12. Explain how to reduce agency conflict between Shareholder's and Management.

SECTION - D

13. Case(Compulsory). **(1×15=15)**

Dell company is evaluating a new project with the life of two years. The project costs $ 240 million after cash flows depends on company's product. The probability tree of the possible cash flows associated with it as follows.

Year 1		Year 2	
Initial probability	Cash flow ($ in millions)	Conditional probability	Cash flows ($ in millions)
0.25	500	0.4	800
		0.4	500
		0.2	200
0.50	200	0.2	500
		0.6	200
		0.2	(100)
0.25	(100)	0.2	200
		0.4	(100)
		0.4	(400)

Questions:

a. Draw a decision tree.

b. What are the joint probability of the occurrence of various cash flows?

c. If the risk free rate is 8%. What is the mean and SD of the probability?

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