MBSC-3.2A

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Third Semester M.B.A. Degree Examination,
February - 2024
(CBCS) (SLM Scheme)
(Elective-A) : MANAGEMENT
Finance
Advanced Corporate Finance

Time : 3 Hours **Max. Marks : 80**

SECTION - A

Answer any five questions. Each question carries 5 marks. **[5 × 5 = 25]**

Q1) What are the reasons for conflict in ranking between NPV and IRR?

Q2) What are the principles governing the estimation of cash flows?

Q3) What is payback period? What are its merits and demerits?

Q4) How do you account for inflation while estimating cash flows?

Q5) Calculate rates of return for the following cash flows :

0	1	2	3
(5000)	5,000	4,000	(1000)

Q6) The estimated cash flows and certainty equivalents for project X and project Y are as follows.

Project X			**Project Y**		
Year	Cash flow	C.E	Year	Cash flow	C.E
0.	(60,000)	1.00	0.	(80,000)	1.00
1.	40,000	0.943	1.	56,000	0.943
2.	40,000	0.890	2.	52,000	0.890
3.	50,000	0.840	3.	58,000	0.840

Which project should be accepted if risk free discount rate is 6%?

Q7) Briefly explain the assumptions of ideal capital market.

SECTION - B

Answer any four questions. Each question carries 10 marks. [4 × 10 = 40]

Q8) Discuss the various capital budgeting evaluation techniques and the rationale for their use.

Q9) The existence of Asymmetric Information is healthy for a growing economy. Discuss on this statement.

Q10) Discuss the rationale underlying on the irrelevance of dividend policy proposed by Miller and modigilni.

Q11) The NPV of a capital project is normally distributed random number with a mean of Rs. 10,000 and standard deviation of Rs. 20,000. Determine the probability of

a) NPV being more than zero.

b) NPV being less than 1,000.

c) NPV being some value between 5,000 and 10,000.

Q12) From the following information about two capital projects X and Y, calculate expected NPV and Standard deviation of NPV.

X		Y	
NPV	Probability	NPV	Probability
(3,000)	0.10	(4,000)	0.20
5,000	0.20	3,000	0.40
10,000	0.40	8,000	0.30
7,000	0.30	10,000	0.10

Q13) Discuss the process of minimizing risks which is associated with the agency problem.

SECTION - C

Q14) **Case (Compulsory)** **[1 × 15 = 15]**

ZBC has two project proposals. They requested you to advise on which project they are supposed to select. The details of the projects are as follows:

The initial cash outlay required for both the projects is Rs. 10,00,000.

The expected cash flows for their life span of 6 years is as follows:

Year	PV factor at 8%	Project - A	Project - B
1	0.926	Rs. 5,00,000	Rs. 3,00,000
2	0.857	2,00,000	2,00,000
3	0.794	3,00,000	4,00,000
4	0.735	3,00,000	3,00,000
5	0.681	2,00,000	2,00,000
6	0.630	2,00,000	4,00,000

Based on the (1) Payback period method (2) NPV method and (3) IRR method, you are required to advise ZBC ltd.