MBSC-3.2A

Sl.No. :

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Third Semester M.B.A. Degree Examination, June/July- 2024

(SLM Scheme) (CBCS)

MANAGEMENT

(Elective - A) : FINANCE

Advanced Corporate Finance

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

SECTION - A

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

Q1) List the assumption of ideal capital market.

Q2) You expect a return on the market of 15% and the risk-free rate to be 3%. The beta for Z Ltd is 0.89 and it is priced to return 14%. What is the expected return?

Q3) Discuss the assumptions of Black-scholes Options Pricing Model.

Q4) Explain Fisher's rate of intersection.

Q5) Distinguish between systematic and unsystematic risk.

Q6) Describe the impact of the principal agent conflicts.

Q7) Briefly explain why the ownership and control should be separated in a company.

SECTION - B

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

Q8) Suppose the beta of L&T's share is 1.54. Risk free rate is 6 percent, the market risk premium is 9 percent determine the cost of equity using CAPM and explain the relevance of CAPM.

Q9) Explain the impact of inflation on capital budgeting decision.

Q10) Discuss impact of information asymmetry on business.

Q11) Firm Raj and Taj are similar except that Raj is unlevered, while Taj has Rs 2,00,000 of 5% debentures outstanding. Assume that the tax rate is 40%. NOI is Rs 40,000 and the cost of equity capital is 10%. Determine the value of the firms if the MM assumptions of capital structure are met.

Q12) Explain the optimal decision under capital rationing with illustration.

Q13) The capitalization rate of Zeta Ltd. is 12%. The company has outstanding shares to the extent of ₹ 25,000 shares selling @ ₹ 100 each. Assume, the net income anticipated for the current financial year of ₹ 3,50,000. Zeta Ltd. plans to declare a dividend of 3 per share. The company has investment plans for new project of ₹ 500,000. Using MM Model determine whether dividend payment does not affect the value of the firm.

SECTION - C

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

A company is considering two projects X and Y each of which required an initial outlay of ₹ 100 million. The expected cash inflows from these projects are

Year	Project X	Project Y
1	22	66
2	38	44
3	64	36
4	74	20

a) What is the payback period for X and Y?

b) What is the discounted pay back period for X and Y if the cost of capital is 12 percent?

c) If the two projects are independent and the cost of capital is 12 percent, which project should the firm invest in ?

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