MBSC-3.2A

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Third Semester M.B.A. Degree Examination, June - 2025
(SLM Scheme) (CBCS)
MANAGEMENT
FINANCE (Elective - A)
Advanced Corporate Finance

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

SECTION - A

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

Q1) The following are cash flows of ABC Ltd

Year	Cash flows (Real) ₹
0	-10000
1	3000
2	3000
3	3000
4	3000

The cash flows are expressed in real terms, the firms opportunity cost of capital which is market determined & expressed in nominal terms is 12%. The rate of inflation is expected to be 5%. Calculate the NPV

Q2) What is capital rationing? Why the firm has to face the rationing situation?

Q3) What are the assumptions of M&M capital structure irrelevance theory?

Q4) What can be done to mitigate the effect adverse selection in markets?

Q5) What is insider trading? How it can be used to mitigate information asymmetry?

Q6) What is empire building? Why is it a compelling goal for managers?

Q7) What is agency problem? How information asymmetry magnifies agency problem?

SECTION - B

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

Q8) Is the Security Market Line (SML) constant over time? Why or why not?

Q9) How do limited liability and the separation of ownership and control reflect risk aversion on the part of the owners of (equity) capital?

Q10) Critically analyse Modigliani & Miller's theory of capital structure.

Q11) Briefly discuss actions that a firm's management can take to expropriate wealth from the firm's debt holders to the firm's shareholders.

Q12) Explain the underinvestment problem facing a firm that has risky debt outstanding.

Q13) Discuss the implications of Leland and Pyle's study on asymmetric information and financial structure?

SECTION - C

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

XYZ corporation has determined the following probability distribution for net cash flows generated by contemplated project

Cash flows(₹)	Period 1 Probability	Period 2 Probability	Period 3 Probability
10000	0.1	0.2	0.3
20000	0.2	0.3	0.4
30000	0.3	0.4	0.2
40000	0.4	0.1	0.1

i) Determine mean NPV & SD of NPV assuming that the cash flows of future periods are dependent. The risk free rate is 8% & the initial cash out flow was ₹ 50000

ii) What is the probability of NPV being Zero or less?

iii) What is the probability that PI will be one or less?