FINC 4531 Exam 3 Answer Key

Closed Book:

1. Maximize shareholder wealth

2. Generating valuable ideas. Valuable ideas are the source of positive npv projects & are necessary for firm to survive.

3. (A) b (B) a (C) e (D) b

4. NPV It is the most accurate at valuing projects and maximizing shareholder wealth

5. Declaration: b Record: a Payment: d Ex-Dividend: c

6. a. The long run payout ratio
   b. How much to pay this quarter
   c. Where do we get the money from

7. Type       Long         Short           Underlying Asset
a.  call       you           company       value of your skills
b.  put        you           Ins. company   value of car less deductible
c.  call       you           West Georgia  9 hr. credit and a fabulous trip with Dr. Best
d.  call       you           Dr. Hodges    1 point

8. Soft capital rationing and post audits may be used as substitutes because managers facing a limited amount of funding are more likely to analyze and abandon poor-performing projects so the funds can be used on more valuable projects.

9. b

10. B

11. A

12. The long run residual policy. It minimizes false signals and allows all positive npv projects to be funded.

Open Book

1. Payback period = 4-5 yrs.
   PI = 6120.61/125500 + 1 = 1.049 accept

2. npv = $22500 accept
b. Does not exist, since there are two sign changes there are two IRRs, neither of which can be used for the accept/reject decision.

3. Choose 2, NPV is higher and positive.

4. PI: a. 1.008 b. 1.1167 c. 1.2267 d. 1.08 e. 1.0691 f. 1.0844 g. 1.1956 h. 1.0241 i. 1.38
   
b. I, C, G, F was full credit, I, C, G, B, A was minus 1.5.

5. .05 = -.09(1-p) + .16p
   .14 = .25p
   .56 = p, .44 = 1-p

   Expected FV = .56(((70,000 (1.16)) - 80,000) = 672
   Vc = 672/1.05 = $640

b. S + P = C + Xe^rt
   70,000 + P = 640 + 80,000/1.05
   70,000 + P = 76,830.48
   P = 6830.48

6. npv with cf3 = 0 is 1886.66
   2500-1886.66 = 613.34
   n = 3 i = 12.4% pv = 613.34 pmt = 0 fv = 870.96

7. a. 5*1.14 = 5.7 mil.
   b. 5/25 = .2*25 = 5 mil.
   c. 25 - (18*.75) = 11.5 mil.
   d. b is the closest to long run residual. Lissa has been paying too much.

8. 180/1.08 = $166.67/sh.

9.  

   Yr.  0        1          2          3          4          5
   CF ($460.9) $181.8   $208.2      $146.4      $137.8      $123.0

   Depr. chg. Yr1. 153.9  Yr2 220.6  Yr3 65.9  Yr4 44.5

   npv = $78,838 Accept