

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. $.05 = -.09(1-p) + .16p$

$$.14 = .25p$$

$$.56 = p, .44 = 1-p$$

$$\text{Expected FV} = .56(((70,000(1.16)) - 80,000)) = 672$$

$$Vc = 672/1.05 = \$640$$

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 $cf_3 = 0$ is 1886.66

$$2500 - 1886.66 = 613.34$$

$$n = 3 \quad i = 12.4\% \quad pv = 613.34 \quad pmt = 0 \quad fv = 870.96$$

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

$$8.180/1.08 = \$166.67/\text{sh.}$$

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