

Exam 3 Spring 2003 FINC 4532 Answers

Closed Book

1. shows how long accounts receivable are outstanding
2. A
3. C
4. D
5. unsecured short term debt issued only by financially strong companies, sold at a discount to par in large denominations
6. False
7. A
8. E.
9. B
10. False
11. E
12. C
13. True
14. False
15. C

Open Book

1. Check sums

	qtr1	qtr2	qtr3	qtr4
Total Collections	90.85	76.3	96.75	143.5
Total Payments	-160	-118	-117	-130
Net Cash Gain/Loss	-69.15	-41.7	-20.25	+13.5
Cumulative Borrowing	49.15	-90.85	-111.10	-97.6

2. (14 points) Your company has \$0 in its checking account. Your company needs to borrow money, such that it has a \$150,000 remaining balance at the end of one year. You are offered the following loans, all with a quoted 9% annual interest rate. Two question for each loan. 1) What amount must you borrow today in order to have \$150,000 at the end of one year? What is the effective annual interest rate for each loan?

Simple Interest

Initial Loan Amount = 150000 Effective Interest Rate = 9%

Discount Interest

Initial Loan Amount = 164835.16 Effective Interest Rate = 9.89%

Discount Interest with a 10% compensating balance

Initial Loan Amount = 185185.18 Effective Interest Rate = 11.11%

Add-on Interest

Effective Interest Rate = 17.48%

- 3 a. \$3,428
4. c. 55.67%
5. e. 73.02%

