Information about the Fall 2003 Final Exam for MBA 8622

Liability Statement
Everything covered in the book and/or in any class by any instructor is fair game for the Final Exam. While it is not our intention, the Final may contain badly written, confusing, and unfair questions. While it is not our intention, the below information may distract, confuse, or mislead some students and may adversely affect preparation on the Final Exam. We make no warranties, expressed or implied, about the usefulness of the below information in preparing for the Final Exam.

Time and Place Information

The Fall 2003 MBA 8622 Final Exam is scheduled for Saturday, December 13, 2003 from 8 a.m. to 10 a.m. The room assignment for Hodges, Morin, Naveen, and Shrikhande is 220-Urban Life. The room assignments for Brown, Mettler, and Venkateswaren are 225, 227, 231 Alpharetta Center respectively. These room assignments are also contained at the main course webpage.

Exam Information

There will be 25 multiple choice questions, with five choices per question. There are 7 concept questions and 18 questions with numerical answers. Note, while most of the questions with numerical answers are quantitative (i.e., require calculations), some may be solved using logic alone.

Be aware that many concepts are covered in multiple chapters, for example, calculations involving the CAPM are from Focused Chapters 2, 3, 4, 5, 6, and 13 (Theory and Practice Chapters 6, 7, 10, 11 and 14). Related to this, on the Final Exam there are questions that cross chapter boundaries. For example, the well known relationship - that increasing the discount rate will decrease the present value – could be phrased as a time value of money, bond, stock, or capital budgeting question. For the questions below, the listed topic that we were considering when we wrote the question. Your classification of questions could differ from ours. There are multiple versions of the exams and it is unlikely that your version of the exam will be in the question order shown below. Here is the breakdown of question type by number.

Number and Type of Question
1. Concept question from Risk and Return
2. Question with Numerical Answer from Risk and Return
3. Question with Numerical Answer from Risk and Return
4. Question with Numerical Answer from Time Value of Money
5. Question with Numerical Answer from Time Value of Money
6. Question with Numerical Answer from Time Value of Money
7. Question with Numerical Answer from Time Value of Money
8. Question with Numerical Answer from Bonds
Exam Hints

MBA 8622 is a core course. As such, our objective is to assure that students have a “body of knowledge” about certain fundamental finance concepts. The Final Exam tests a student’s knowledge over the fundamental finance concepts (i.e., Focused textbook Chapter 1-8 and 13; Theory and Practice textbook 1, 6, 7, 8, 9, 10, 11, 13, 14, and 16) covered after session three. Although certain concepts (e.g., sources and uses of funds in calculating initial cash flows for capital budgeting) are needed for the Final Exam, we do not design questions to directly test your knowledge of any other material.

For the past several years, the topics covered in MBA 8622 have shown little change (In Spring 2002, we dropped an in-depth discussion of financial statement analysis and added a discussion of Capital Structure). For this reason, we strongly suggest you review the sample Final Exams listed on the course WebPages (http://www-cba.gsu.edu/%7Ewwwfin/ba862home.html). Especially for quantitative questions, the same material is tested each term. As an example, consider the Stock chapter. There are two models (CAPM and Constant Growth) with two types of valuation problems (constant growth and non-constant growth) and four variables that can possibly be calculated (dividend, price, growth rate, and required return on stock). We therefore have very few types of questions that we can ask. If you look on past exams from the course webpage, you will generally find 2-4 calculations involving stocks. On almost every exam, one of the questions is a non-constant growth problem and one of the questions is a required rate of return (possibly given as part of a WACC problem). Another reason to study the old exams is to see the way in which questions are written.

There are no formulas listed on the exam. You are not allowed to program your calculator with formulas and thus there are certain formulas/methods/techniques you should memorize. In the list that follows, we have placed a (M), for Memorize, by types of
calculations that are not normally directly solvable with the standard calculator. Here are some of the calculations that you will be asked to make; weighted returns/average (M), standard deviation (M), standard deviation of a 2-stock portfolio where you combine the stocks for each state of nature, standard deviation for a 2-stock portfolio where correlation is given (M)\(^1\), present value, future value, annuity, annuity due, solving for interest rate and time, compounding periods other than annual, periodic to stated to effective interest rate conversions (M), amortized loan tables (M), perpetuities (M), CAPM (M), bond valuations, current yield, coupon rate, yield to maturity, Constant Growth stock valuation model (M), non-constant growth stock valuations, preferred stock valuation(M), WACC(M), growth = retention rate * Return on Equity(M), NPV, IRR, Payback(M), Initial Cash Flows for new projects or replacement (M), Operating Cash Flows for new or replacement projects(M), Terminal Cash Flows for new or replacement projects(M), adjusting cash flows for inflation, adjusting the discount rate for project risk, Hamada equation (M). Some things that will not be tested are discounted payback period, MIRR, fractional time periods, and free cash flow valuation with constant growth, and breakeven analysis.

**Some test technique hints:**

1. If you do not understand a question, ask your instructor. The worst case scenario is that the instructor says they cannot answer your question.
2. You may have difficulty in finishing the exam, within 2 hours. Therefore, “Cherry Pick” your questions save the longest and most difficult questions for last.
3. You will need formulas on the exam. Memorize the formulas you expect to need (based on the old exams and the above list) and then upon receipt of the exam, write the formulas on the back of the exam.
4. Budget your time. You have 2 hours to complete the exam. While we design the exam to take about 100 minutes for the average student, there is always a group of students that takes the entire 2 hours.

*Hope this helps and have fun.*

\(^1\) This is not currently in the text, but is usually tested on the Take Home Problem Set and is still testable on the Final Exam. Here is the equation for the variance, \(((w_1^2*s_1^2) + (w_2^2*s_2^2) + (2w_1*w_2*s_1*s_2*rho))\), where w=weight, 1=stock 1, 2=stock 2, s=standard deviation, rho=correlation between stocks 1 and 2. Take the square root of the variance to get the standard deviation.