

Code: 9E00202

MBA II Semester Regular & Supplementary Examinations, October/November 2013

FINANCIAL MANAGEMENT

Time: 3 hours

Max. Marks: 60

Answer any five questions
All questions carry equal marks

- 1 What are the basic financial decisions? How do they involve risk-return trade-off?
- 2 An investment project has two internal rates of return, 20 and 50%. The investments NPV at 30% discount rate is + Rs 1,000. Would the project to be acceptable if the discount rate is : (i) 40%. (ii) 10%. (iii) 60%. Draw NPV graph to justify your answer.

- 3 A company is considering a new equipment. The net cash flows of the equipment have been estimated as given below. The equipment's life is estimated to be two years.

	Year I	Probability	Year II	Probability
NCF	10,000	0.4	8,000 12,000	0.5 0.5
NCF	12,000	0.6	16,000 20,000	0.4 0.6

The cost of equipment is Rs 20,000 and the company's cost of capital is 12%. Use the decision free approach to recommend whether the equipment should be bought or not.

- 4 What is cost of capital? Describe various components of cost of capital.
- 5 How is the corporate dividend behavior determined? Explain Lintner's model in this regard.
- 6 Briefly explain factors that determine the working capital needs of a firm.
- 7 Explain and illustrate the impact of mergers on earnings per share, market price per share and book value per share of the acquiring company.
- 8 Define corporate governance. Describe the attributes of a good corporate governance system.
