POWERED ON MOBILE PHONE(S) SUBJECT TO CONSIDERED AS AN ACT OF CHEATING

College Name: ____

Student Name: ______________________ Seat No: _____________________________

Copy No: _________________________

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2016; AFFILIATED COLLEGE
FINANCIAL MANAGEMENT; BA (M)–622 (PART A)
MBA–IV

Date: July 14, 2016 **Max Time: 2.5 Hrs**
Max Marks: 40

INSTRUCTIONS:

1. **Attempt any 5 questions. Do not write anything on the question paper.**
2. **Mobile phone(s) or any other communicating device is not allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 Your company is considering two mutually exclusive projects, X and Y, whose costs and cash flows are shown below:

Year	Project X Cash Flow	Project Y Cash Flow
0	-Rs2,000	-Rs2,000
1	200	2,000
2	600	200
3	800	100
4	1,400	75

The projects are equally risky, and the firm's cost of capital is 12 percent. You must make a recommendation, and you must base it on the modified IRR (MIRR). What is the MIRR of the better project?

Q2 You are an investor in common stock and currently hold a well–diversified portfolio which has an expected return of 12 percent with a beta of 1.2. You plan to buy 100 shares of ATTOCK at Rs10 a share. ATTOCK has an expected return of 20 percent with a beta of 2.0. The total value of your current portfolio is Rs9,000. What will be the expected return and beta of the portfolio after the purchase of the new stock?

Q3 A company has determined that its optimal capital structure consists of 40 percent debt and 60 percent equity. Given the following information, calculate the firm's weighted average cost of capital.

rd = 6%
Tax rate = 40%
P0 = Rs25
Growth = 0%
D0 = Rs2.00

Q4 A 6–year bond which pays 8 percent interest semiannually sells at par ($1,000). Another 6–year bond of equal risk pays 8 percent interest annually. Both bonds are non–callable and have a face value of $1,000. What is the price of the bond which pays annual interest?

Q5 New burn Entertainment's stock is expected to pay a year–end dividend of $3.00 a share. ($D_1$ = $3.00, the dividend at time 0, D_0, has already been paid). The stock's dividend is expected to grow at a constant rate of 5 percent a year. The risk–free rate, r_{RF}, is 6 percent and the market risk premium, ($r_M - r_{RF}$), is 5 percent. The stock has a beta of 0.8. What is the stock's expected price five years from now?

Q6. A Corporation expects to have net income of Rs.800,000 during the next year its target and current capital structure is 40% debt and 60% common equity the Director has determined that the optimal capital budget for next year is Rs.1.2 million if Co uses the residual dividend model to determine next year's dividend payout, What is the expected Payout ratio?

END OF SUBJECTIVE PAPER