

College Name: _____

Seat No: _____ Student's Name: _____

Copy No: _____

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION DECEMBER 2017; AFFILIATED COLLEGES
FINANCIAL MANAGEMENT; BA(BS)-601
BBA – VII

Date: January 8, 2018

Max Time: 100 Mins
Max Marks: 40

INSTRUCTIONS:

- 1. Attempt any 4 questions. Do not write anything on the question paper. EXCEPT the initials mentioned above.**
- 2. Mobile phones or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 You are thinking about investing your money in the stock market. You have the following two stocks in mind: stock A and stock B. You know that the economy can either go in recession or it will boom. You know the following information about your two stocks:

State of the Economy	Probability	R _A	R _B
Boom	2/3	10%	-2%
Recession	1/3	6%	40%

Required:

- Calculate the expected return on a portfolio consisting of 10% invested in stock A and the remainder in stock B.
- Q2 There are two firms 'A' and 'B' which are exactly identical except that A does not use any debt in its financing, while B has Rs. 2,50,000, 6% Debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and the equity capitalization rate is 10%. Assuming the corporation tax is 50%, calculate the value of the firm.
- Q3 A company plans to issue 10000 new shares of Rs. 100 each at a par. The floatation costs are expected to be 4% of the share price. The company pays a dividend of Rs. 12 per share initially and growth in dividends is expected to be 5%.
- (a) Compute the cost of new issue of equity shares.
 - (b) If the current market price of an equity share is Rs. 120. Calculate the cost of existing equity share capital
- Q4 a) Kumar company has sales of Rs. 25,00,000. Variable cost of Rs. 12,50,000 and fixed cost of Rs. 50,000 and debt of Rs. 12,50,000 at 8% rate of interest. Calculate the combined leverage.
- b) What is Markowitz portfolio theory? List all of its assumptions
- Q5 X Company Ltd., has 100000 shares outstanding the current market price of the shares Rs. 15 each. The company expects the net profit of Rs. 200,000 during the year and it belongs to a rich class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Rs. 2.50 per share for the current year. What will be the price of the share at the end of the year (i) if the dividend is paid and (ii) if the dividend is not paid?

END OF SUBJECTIVE PAPER