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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**Post Graduate Diploma in Management (Batch 2022-24) |
| **Course Title: Advanced Corporate Finance, (Course Code: 40221)****End-Term improvement Examination, Term - III (July, 2023)**  |
|  **Time Duration : 2 Hours Total Marks: 40** |

***General Instructions*:**

1. *The marks of each question is indicated to their right.*
2. *This exam is completely an MS -excel based exam*
3. *No answer sheet will be given*
4. *Students need to submit one excel file as an answer script. The excel file will have multiple sheets.*
5. *Students need to solve each question in a separate sheet and name the sheet with ques number.*
6. *No Internet access will be given*
7. *No formula, interest factors tables will be provided*
8. *Students should continually keep saving their work*
9. *Students should save the final excel file with their name and roll number.*
10. *Do not write anything on the question paper apart from your roll number.*

Q1. a.Rosita's announced that its next annual dividend will be $1.65 a share and all future dividends will increase by 2.5 percent annually. What is the maximum amount you should pay to purchase a share of this stock if you require a 12 percent rate of return? **[5 Marks]**b. Martin's Yachts is expected to pay annual dividends of $1.40, $1.75, and $2.00 a share over the next three years, respectively. After that, the dividend is expected to remain constant. What is the current value per share at a discount rate of 14 percent? **[5 Marks]**

Q2. a.

|  |  |
| --- | --- |
| Deviationfrom Base | NPV with Variables at Different Deviations from Base |
| Equipment Cost | Price | Units | VC/Unit |
| −30% | $2,599 | −$9,852 | −$1,999 | $8,901 |
| 0% | $1,048 | $1,048 | $1,048 | $1,048 |
| 30% | −$503 | $11,949 | $4,096 | −$6,805 |
| Range | $3,102 | $21,801 | $6,095 | $15,706 |

From the table identify which variable is the most sensitive to NPV of the project and which variables are positively and negatively related to NPV. **[5 Marks]**

b. Explain how is monte carlo simulation used to identify the risk associated with a project. **[5 Marks]**

Q3. a. i. You purchase one IBM July 120 put contract for a premium of $3. You hold the option until the expiration date, when IBM stock sells for $123 per share. Identify the loss/profit made.

**[2.5 Marks]**

ii. You purchase one IBM July 120 call contract for a premium of $5. You hold the option until the expiration date, when IBM stock sells for $123 per share. Identify the loss/profit made.

**[2.5 Marks]**

b. Find the €/£ exchange rates:

|  |  |  |
| --- | --- | --- |
| USD Bank Quotations | American Terms | European Terms |
| Bid | Ask | Bid | Ask |
| Pounds | 1.5400 | 1.5405 | .6491 | .6493 |
| Euros | 1.3087 | 1.3092 | .7638 | .7641 |

 **[7 Marks]**

Q4. ABC Corp. is analyzing the possible acquisition of XYZ Company. Both firms have no debt. ABC believes the acquisition will increase its total aftertax annual cash flow by $1 million indefinitely. The current market value of XYZ is $25 million, and that of ABC is $60 million. The appropriate discount rate for the incremental cash flows is 11 percent. ABC is trying to decide whether it should offer 35 percent of its stock or $37 million in cash to XYZ’s shareholders.

a. Calculate the cost of each alternative?

b. Calculate the NPV of each alternative?

c. Identify which alternative should ABC Corp. choose? **[8 Marks]**