MB 117 A(N)

Third Semester M.B.A. Examination, September 2016
(New Scheme)
Elective : Finance
C – 017 A : ADVANCED CORPORATE FINANCE

Time : 3 Hours Max. Marks : 80

SECTION – A

1. Answer **any five** sub-questions. **Each** question carries **3** marks. **(5×3=15)**
   a) What are the components of cash flow ?
   b) Compare the NPV and IRR methods, when do the results of both the methods conflict ?
   c) What is capital rationing ? Why the firm has to face the rationing situation ?
   d) How does the notion of arbitrage affect the issue of capital structure ?
   e) What effects can information asymmetry have in markets ?
   f) Write a note on agency problem.
   g) Distinguish between moral hazard and adverse selection with examples.

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. **(4×5=20)**

2. State the consequences of violations of the assumptions of ideal capital market.
3. Outline the traditional trade-off theory of capital structure.
4. Describe the concepts of various methods of investment decision criteria.
5. Consider the following cash flows of project of MNC Company. Assume that the discount rate is 10%.

Year	Project's cash flows (₹)
0	(10,00,000)
1	6,00,000
2	4,00,000
3	10,00,000

Calculate MIRR and suggest the company whether the project should accept or reject.

P.T.O.

6. Using the Binomial model find the values of a firms levered equity (EL), given the following values :

   V = 200, μ = 1.3, p = 0.7, X= 200 and T = 3

7. Outline put call parity theorem.

SECTION – C

Answer **any three** questions. **Each** question carries **10** marks. **(3×10=30)**

8. PM Company is considering two mutually exclusive projects. The initial cost of both projects is ₹ 5,000 and each has an expected life of five years. Under three possible states of economy their annual cash flows and associated probabilities are as follows :

Economic State	Probability	NCF (₹)	
		Project A	Project B
Good	0.3	6,000	5,000
Normal	0.4	4,000	4,000
Bad	0.3	2,000	3,000

   The discount rate is of percent.

   Determine mean NPV and SD of NPV assuming that the cash flows of future periods are dependent.

9. Discuss the basic cause of information asymmetry in the market for corporate securities.

10. Explain the underinvestment problem facing a firm that has risky debt outstanding.

11. Explain the different ways of resolving principal agent conflict in corporate undertaking set up.

12. Calculate value of debt and equity given V = ₹ 100, rf = 5%, X = ₹ 60, σ = 22% and T = 5 years based on BSOPM.

SECTION – D

13. Case (**Compulsory**). **(15×1=15)**

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 1	**Probability**	**Year 2**	**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 ₹ 20,000 and the company's cost of capital is 12 percent. Use the decision tree approach to recommend whether the equipment should be bought or not.

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