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STRATEGIC FINANCIAL MANAGEMENT MCQ

- An investor wrote a naked call option. The premium was ₹2.50 per share and the market price and exercise price of the share are ₹37 and ₹41 respectively. The contract being for 100 shares, what is the amount of margin under First Method that is required to be deposited with the clearing house?
  - **₹590**
  - ₹250
  - ₹740
  - ₹400

- An investor buys a call option contract for a premium of ₹200. The exercise price is ₹20 and the current market price of the share is ₹17. If the share price after three months reaches ₹25, what is the profit made by the option holder on exercising the option? Contract is for 100 shares. Ignore the transaction charges.
  - ₹200
  - ₹500
  - **₹300**
  - ₹400

- Unlevered beta and effective tax rate of S Ltd is 0.8 and 35 percent respectively. The company intends to undertake a project with 60 percent debt financing. Assuming risk free rate of 7.5 % and market premium 8 %, calculate cost of equity (rounded up to two decimal points)
  - 13.90%
  - **20.14%**
  - 16.40%
  - None of (A), (B) or (C)

- The spot and 6 months forward rates of US $ in relation to the rupee (₹/$) are ₹40.9542/41.1255 and ₹41.8550/9650 respectively. What will be the annualized forward margin (premium with respect to Bid Price)?

- 4.10%
- **4.40%**
- 4.50%
- None of (A), (B) or (C)

- A mutual Fund had a Net Asset Value (NAV) of ₹72 at the beginning of the year. During the year, a sum of ₹6 was distributed as Dividend.Besides, ₹4 as Capital Gain distributions. At the end of the year, NAV was ₹84. Total return for the year is :
  - **30.56%**
  - 31.56%
  - 40.56%
  - 41.56%

- The standard deviation of Greaves Ltd. Stock is 24% and its correlation coefficient with market portfolio is 0.5. The expected return on market is 16% with the standard deviation of 20%. If the risk free return is 6%, what will be the required rate of return on Greaves Ltd. Script?
  - **12%**
  - 11%
  - 13%
  - 11.5%

- Your customer requests you to book a sale forward exchange contract for US $ 2 million delivery 3rd month. The quotes are: Spot US $ 1= ₹48.050/0.060; 1month margin = 0.0850/0.0900; 2 month margin = 0.2650/0.2700; 3 month margin = 0.5300/0.5350. You are required to make an exchange profit of 0.125%. Ignore telex charges and brokerage.
  - **₹120000**
  - ₹230000
  - ₹75000
  - ₹100000

- The Sterling is trading at ₹1.6100 today. Inflation in UK is 4% and that in USA is 3%. What could be spot rate ($/£) after 2 years?

- **1.5792**
- 1.5892
- 1.5992
- 1.5939

- The capital structure of a company is as under: 3,00,000, Equity shares of ₹10 each; 32000,12% Preference shares of ₹100 each; General Reserve ₹15,00,000; Securities Premium Account ₹5,00,000; 25000, 14% Fully Secured Debentures of ₹100 each; Term Loan of ₹13,00,000. Based on these, the leverage of the company is:
  - 60.22%
  - **58.33%**
  - 55.21%
  - 62.10%

- Historically, when the market return changed 10%, the return on stock of Arihant Ltd changed by 16%. If variance of market is 257.81, what would be the systematic risk for Arihant Ltd?
  - 320%
  - 480%
  - **660%**
  - Insufficient information.

- The beta co-efficient of equity stock of ARISTO LTD is 1.6. The risk free rate of return is 12% and the required rate of return is 15% on the market portfolio. If dividend expected during the coming year ₹2.50 and the growth rate of dividend and earnings is 8%. At what price the stock of ARISTO LTD. Can be sold (based on CAPM)?
  - ₹12.50
  - ₹16.80
  - **₹28.41**
  - Insufficient Information.

- The ratio of current assets (₹3,00,000) to current liabilities (₹2,00,000) is 1.5 : 1. The accountant of this firm is interested in maintaining a current ratio of 2 : 1 by paying some part of current liabilities. Hence, the amount of current liabilities which must be paid for this purpose is

  - **₹1,00,000**
  - ₹2,00,000
  - ₹2,50,000
  - ₹1,50,000

- Dividend-Payers Ltd. has a stable income and stable dividend policy. The average annual dividend payout is ₹27 per share (Face Value = ₹100). You are required to find out Dividend payout in year 2, if the company were to have an expected market price of ₹160 per share at the existing cost of equity. [The market price in year 1 is₹150]
  - ₹28.88
  - ₹26.86
  - **₹28.80**
  - ₹26.98

- The interest rate in Germany is 11 per cent and the expected inflation rate is 5 per cent. The British interest rate is 9 per cent. How much is the expected inflation rate in Britain?
    - 3.0%

- **3.1%**
- 4.5%
- 2.9%

- Mr. Ravi is planning to purchase the shares of X Ltd. which had paid a dividend of ₹2 per share last year. Dividends are growing at a rate of 10%. What price would Mr. Ravi be willing to pay for X Ltd.'s shares if he expects a rate of return of 20%?
  - **₹22**
  - ₹24
  - ₹20
  - ₹21

- The spot price of securities of X Ltd. is ₹160. With no dividend and no carrying cost, compute the theoretical forward price of the securities for 1 month. You may assume a risk free interest rate of 9% p.a.
  - ₹160
  - ₹162.75
  - **₹161.20**
  - ₹159.20

- It is given that ₹/£ quote is ₹94.30 – 95.20 and that ₹/$ quote is 66.25 – 66.45. What would be the $/£ quote?
  - **1.42 :1.44**
  - 1.44 :1.42
  - 1.44 :1.52
  - 1.52 :1.44

- When are call options and put options said to be 'in the money' in the futures market?
  - In call options when strike price is above the price of underlying futures, call option is 'in the money'. In put options, when the strike price is below the price of underlying futures put option 'is in the money'
  - **In call options when strike price is below the price of underlying futures, call option is 'in the money'. In put options, when the strike price is above the price of underlying futures put option 'is in the**

money’
    - None of the above
    - Both the above

- A firm has an equity beta of 1.40 and is currently financed by 25% debt and 75% equity. What will be the company’s equity beta if the company changes its financing policy to 33% debt and 67% equity? [Assume corporate tax at 35% and zero debt beta]
    - 1.62
    - 1.72
    - 1.42
    - **1.52**

- XYZ Ltd. has a uniform income that accrues in a 4 – year business cycle. It has an average EPS of ₹20 (per share of ₹100) over its business cycle. Find out the cost of equity capital, if market price is ₹175.
    - **11.43%**
    - 12.43%
    - 10.43%
    - 13.43%

- Following information is available regarding a mutual fund: Return 13, Risk (σ) 16, Beta (β) 0.90, Risk free rate 10. Calculate Sharpe ratio.
    - 0.18
    - 0.16
    - **0.19**
    - 0.17

- A project had an equity beta of 1.3 and was going to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero, calculate the project beta and return from the project taking risk free rate of return to be 10% and return on market portfolio of 18%.
    - 14.28%
    - **17.28%**

- 15.28%
- 16.28%

- X Ltd. issued ₹100, 12% Debentures 5 years ago. Interest rates have risen since then, so that debentures of the company are now selling at 15% yield basis. What is the current expected market price of the debentures?
  - ₹75
  - **₹80**
  - ₹90
  - ₹85

Given	Last Year	Current Year
Sales unit Selling Price per unit EPS	2,000 ₹10 ₹9.60	2,800 ₹10 ₹38.40

What is the Degree of Combined Leverage?

- What is the Degree of Combined Leverage?
  - 6.5
  - 5.6
  - **7.5**
  - 5.7

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