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SFM MCQ – Please find below MCQ Strategic Financial Management

- A firm has an asset β = 1.3, equity β = 1.5. Then, which of the following is true?
  - The firm is unlevered
  - Debt β is also 1.3
  - The above data is not possible
  - **The firm is leveraged and the debt β is lower than the asset β**

- For a portfolio containing three securities A, B and C, correlation coefficients ρAB = +0.4; ρAC = +0.75; ρBC = – 0.4; standard deviation σA = 9; σB = 11; σC = 6; weights ωA = 0.2; ωB = 0.5; ωC = 0.3; the covariance of securities A and B is
  - 3.96
  - 24.75
  - **39.6**
  - 247.5

- A ₹1,000 per value bond bearing a coupon rate of 14% matures after 5 years. The required rate of return on this bond is 10%. The value of the bond (to the nearest rupee) will be:
  - 1,125
  - **1,152**
  - 1,512
  - 862.20

- The following information is available for a mutual fund: Return 13% Risk (S.D. i.e. σ) 16% Beta (β) 0.90 Risk Free Rate 10% Treynor's Ratio of the mutual fund is:
  - 3.85
  - 4.43
  - **3.33**
  - 3.73

- The 90 day interest rate is 1.85% in USA and 1.35% in the UK and the current spot exchange rate is $ 1.6/£. The 90-day forward rate is

  - **$ 1.607893**
  - $ 1.901221
  - $ 1.342132
  - $ 1.652312

- The intercept of the Security Market Line (SML) on the y axis is
  - E(Rm) – Rf
  - 1/[E(Rm) – Rf]
  - Rf – E(Rm)
  - **Rf**

- A mutual fund wants to hedge its portfolio of shares worth ₹10 crore using the NIFTY Index Futures. The contract size is 100 times the index. The index is currently quoted at 6840. The Beta of the portfolio is 0.8. The beta of the index may be taken as 1. What is the number of contracts to be traded?
  - 110
  - **117**
  - 145
  - 123

- A call option at a strike price of ₹200 is selling at a premium of ₹24. At what share price on maturity will it break-even for the buyer of the option?
  - ₹200
  - ₹176
  - **₹224**
  - ₹248

- A safety mutual fund that had a net asset value of ₹20 at the beginning of a month, made income and capital gain distribution of ₹0.06 and ₹0.04 respectively per unit during the month and then ended the month with a net asset value of ₹20.25. The monthly return is:
  - 2.25%
  - **1.75%**

  - 1.25%
  - 1.65%

- MI Ltd. has annual sales of ₹365 lacs. The company has investment opportunities in the money market to earn a return of 15% per annum. If the company could reduce its float by 3 days, what would be the increase in company's total return? (Assume 1 year = 365 days)
  - **₹45,000**
  - ₹40,000
  - ₹54,000
  - ₹46,000

- In the inter-bank market, the DM is quoting ₹21.50. If the bank charges 0.125% commission for TT selling, what is the TT selling rate?
  - **₹21.47/DM**
  - ₹21.53/DM
  - ₹22.78/DM
  - ₹23.45/DM

- The required rate of return on equity is 24% and cost of debt is 12%. The company has a capital structure mix of 80% of equity and 20% debt. What is the overall rate of return, the company should earn? Assume no tax.
  - **21.6%**
  - 14.4%
  - 18.6%
  - 17.22%

- Initial Investment ₹20 lakh. Expected annual cash flows ₹6 lakh for 10 years. Cost of capital @ 15%. What is the Profitability Index? The cumulative discounting factor @ 15% for 10 years = 5.019.
    - **1.51**

- 1.15
- 5.15
- 0.151

- The following details relate to an investment proposal of XYZ Ltd. Investment outlay — ₹100 lakhs Lease Rentals are payable at ₹180 per ₹1,000 Term of lease—8 years Cost of capital—12% What is the present value of lease rentals, if lease rentals are payable at the end of the year? [Given PV factors at 12% for years (1-8) is 4.9676.
  - ₹98,14,680
  - **₹89,41,680**
  - ₹94,18,860
  - ₹96,84,190

- 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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