Student:

1. Miller Brothers Hardware paid an annual dividend of \$1.15 per share last month. Today, the company announced that future dividends will be increasing by 2.6 percent annually. If you require a 12 percent rate of return, how much are you willing to pay to purchase one share of this stock today?

A. \$12.72

B. \$12.23

C. \$12.55

D. \$12.67

E. \$12.88

2. Bruno's Lunch Counter is expanding and expects operating cash flows of \$26,000 a year for 4 years as a result. This expansion requires \$39,000 in new fixed assets. These assets will be worthless at the end of the project. In addition, the project requires \$3,000 of net working capital throughout the life of the project. What is the net present value of this expansion project at a required rate of return of 16 percent?

A. \$21,033.33
B. \$29,416.08
C. \$28,288.70
D. \$18,477.29
E. \$32,409.57

3. A bond has a market price that exceeds its face value. Which of the following features currently apply to this bond?
I. discounted price
II. premium price
III. yield-to-maturity that exceeds the coupon rate
IV. yield-to-maturity that is less than the coupon rate
A. I and III only
B. II and IV only
C. III only

- D. I and IV only
- E. II and III only

4. Crafter's Supply purchased some fixed assets 2 years ago at a cost of \$38,700. It no longer needs these assets so it is going to sell them today for \$25,000. The assets are classified as 5-year property for MACRS. What is the net cash flow from this sale if the firm's tax rate is 30 percent?

MACRS 5-year	property
Year	Rate
1	20.00%
2	32.00%
3	19.20%
4	11.52%
5	11.52%
6	5.76%
A. \$18,576.00	
B. \$23,072.80	
C. \$20,843.68	
D. \$25,211.09	
E. \$13,122.20	

5. The break-even tax rate between a taxable corporate bond yielding 7 percent and a comparable nontaxable municipal bond yielding 5 percent can be expressed as:

A. $0.05/(1 - t^*) = 0.07$. B. $0.05 - (1 - t^*) = 0.07$. C. $0.07 + (1 - t^*) = 0.05$. D. $0.05 \times (1 - t^*) = 0.07$. E. $0.05 \times (1 + t^*) = 0.07$.

6. Jefferson & Sons is evaluating a project that will increase annual sales by \$138,000 and annual costs by \$94,000. The project will initially require \$110,000 in fixed assets that will be depreciated straight-line to a zero book value over the 4-year life of the project. The applicable tax rate is 32 percent. What is the operating cash flow for this project?

A. \$46,620

B. \$11,220

C. \$46,480

D. \$29,920

E. \$38,720

7. Blue Water Systems is analyzing a project with the following cash flows. Should this project be accepted based on the discounting approach to the modified internal rate of return if the discount rate is 14 percent? Why or why not?

Year	<u>Cash Flow</u>
0	-\$236,000
1	137,400
2	189,300
3	-25,000

A. Yes; The MIRR is 13.48 percent.

B. No; The MIRR is 5.73 percent.

C. Yes: The MIRR is 17.85 percent.

D. No; The MIRR is 17.85 percent.

E. Yes; The MIRR is 21.23 percent.

8. The person on the floor of the NYSE who executes buy and sell orders on behalf of customers is called a(n):

- A. specialist.
- B. floor trader.
- C. dealer.
- D. executor.
- E. commission broker.

9. Isaac has analyzed two mutually exclusive projects of similar size and has compiled the following information based on his analysis. Both projects have 3- year lives.

	<u>Project A</u>	Project B
Net present value	\$81,406	\$82,909
Payback period	2.48 years	2.31 years
Average accounting return	9.58 percent	9.53 percent
Required return	11.5 percent	12.0 percent
Required AAR	9.25 percent	9.25 percent

Isaac has been asked for his best recommendation given this information. His recommendation should be to accept:

- A. neither project.
- B. project A and reject project B based on their average accounting returns.
- C. project B because it has the shortest payback period.
- D. both projects.
- E. project B and reject project A based on their net present values.

10. The depreciation tax shield is best defined as the:

A. amount of tax that is due when an asset is sold.

- B. amount of tax that is saved because of the depreciation expense.
- C. amount of tax that is saved when an asset is purchased.
- D. tax that is avoided when an asset is sold as salvage.
- E. amount by which the aftertax depreciation expense lowers net income.

11. Diets For You announced today that it will begin paying annual dividends next year. The first dividend will be \$0.12 a share. The following dividends will be \$0.15, \$0.20, \$0.50, and \$0.60 a share annually for the following 4 years, respectively. After that, dividends are projected to increase by 4 percent per year. How much are you willing to pay to buy one share of this stock today if your desired rate of return is 8.5 percent?

A. \$10.86 B. \$9.94 C. \$10.38

D. \$10.50

E. \$9.67

12. Gateway Communications is considering a project with an initial fixed asset cost of \$2.46 million which will be depreciated straight-line to a zero book value over the 10-year life of the project. At the end of the project the equipment will be sold for an estimated \$300,000. The project will not directly produce any sales but will reduce operating costs by \$725,000 a year. The tax rate is 35 percent. The project will require \$45,000 of inventory which will be recouped when the project ends. Should this project be implemented if the firm requires a 14 percent rate of return? Why or why not?

A. Yes; The NPV is \$387,516.67

B. No; The NPV is -\$87,820.48.

C. Yes; The NPV is \$466,940.57

D. Yes; The NPV is \$251,860.34

E. No; The NPV is -\$172,937.49.

13. Home Canning Products common stock sells for \$44.96 a share and has a market rate of return of 12.8 percent. The company just paid an annual dividend of \$1.04 per share. What is the dividend growth rate?

- A. 9.23 percent
- B. 8.45 percent
- C. 10.25 percent
- D. 9.67 percent
- E. 8.29 percent

14. Redesigned Computers has 5.25 percent coupon bonds outstanding with a current market price of \$546.19. The yield to maturity is 16.28 percent and the face value is \$1,000. Interest is paid semiannually. How many years is it until these bonds mature?A. 6.64 yearsB. 12.41 yearsC. 7.08 years

- D. 14.16 years
- E. 28.32 years

15. Douglass Interiors is considering two mutually exclusive projects and have determined that the crossover rate for these projects is 11.7 percent. Project A has an internal rate of return (IRR) of 15.3 percent and Project B has an IRR of 16.5 percent. Given this information, which one of the following statements is correct?

A. Neither project should be accepted since both of the project's IRRs exceed the crossover rate.

B. Project B should be accepted as it has the higher IRR.

C. Both projects should be accepted as both of the project's IRRs exceed the crossover rate.

D. Project A should be accepted as its IRR is closer to the crossover point than is Project B's IRR.

E. You cannot determine which project should be accepted given the information provided.

16. What is the profitability index for an investment with the following cash flows given a 14.5 percent required return?

Year	Cash Flow			
0	-\$46,500			
1	\$12,200			
2	\$38,400			
3	\$11,300			
A. 0.94	B. 1.06	C. 0.98	D. 1.11	E. 1.02

17. Which two methods of project analysis are the most biased towards short-term projects?

- A. net present value and internal rate of return
- B. discounted payback and profitability index
- C. payback and discounted payback
- D. internal rate of return and profitability index
- E. net present value and discounted payback

18. Municipal bonds:

- A. generally have higher coupon rates than corporate bonds.
- B. are totally risk-free.
- C. pay interest that is federally tax-free.
- D. are free of default-risk.
- E. are rarely callable.