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SARDAR PATEL UNIVERSITY

BBA [GEN] VIth SEM [NC]

Advanced Financial Management II UM06EBBA02/07

[For 2010 Batch]

21ST March, 2017, Tuesday

Time: 2.00 to 4.00 P.M. **Marks: 60**

Q1A. What is Capital Structure? Describe the guiding principles of Capital Structure decisions. [10]

Q1B. Write a note on NOI Approach. [05]

OR

Q1. Following are given EBIT, Interest and Ke Calculate Overall Cost and Value of the firm. [15]

Type of Firm	EBIT [Rs.]	Interest @ 10%	Ke
W	2,00,000	20,000	12%
X	3,00,000	60,000	16%
Y	5,00,000	2,00,000	15%
Z	6,00,000	2,40,000	18%

Q2. Explain the forms of Dividend with the variables influencing Dividend Decision. [15]

OR

Q2. The results regarding three companies are given below. [15]

Growth Ltd.	Normal Ltd.	Declining Ltd.
r > Ke	r = Ke	r < Ke
r = 0.15	r = 0.10	r = 0.08
Ke = 0.10	Ke = 0.10	Ke = 0.10
E = Rs. 10	E = Rs. 10	E = Rs. 10

Find out market price of an Equity share of each of these companies applying Gordon's formula when dividend payout ratio is 40%, 60% and 90% comment on results.

Q3A. "The certainty equivalent approach is theoretically superior to the Risk Adjusted discount rate Approach" Do you agree? Why? [08]

Q3B. Explain the steps involved in Decision Tree Analysis. [07]

OR

Q3A. Mr X is considering an investment which required a current outlay of Rs. 25000 expected value and standard deviation are as follows. [08]

Year	Expected Value [Rs.]	Standard Deviation
1	12000	5000
2	10000	6000
3	9000	5000
4	8000	6000

The Cash flows are perfectly co-related. Calculate expected NPV and Standard Deviation of NPV of this investment where risk free return is 8%.

Q3B. Z Ltd. provides the following data for cash flow. Company follow Certainty Equivalent Approach in risk analysis. [07]

Year	CFAT [Rs.]	Certainty Equivalent
0	1000	1
1	700	0.8
2	800	0.7
3	650	0.6
4	600	0.4
5	400	0.3

The firms Cost of Capital are 18% and Cost of Debt is 9% and the risk less ROR is 6%. Should the proposal be expected?

Q4. Explain the Internal and External Techniques of Foreign Exchange Risk Management [15]

OR

Q4. Write Short Notes on the following. [15]

A. Interest Rate Theory

B. Inflation Rate Theory

C. International Fisher Effect Theory.