Time Allowed : 1 hour and 30 Minutes	Test - 3	Total Marks :50 Marks

Part A [Financial Management 30 Marks]

Q.1 Alpha Ltd. Is considering five Capital Projects for the forthcoming few years. The company is financed by equity entirely and its Cost of Capital is 12%. The expected Cash Flows of the projects are as follows–

Years and Cash Flows (₹ 000s) figures in brackets represent outflows)

Project	0	1	2	3
A	(70)	35	35	20
B	(40)	(30)	45	55
C	(50)	(60)	70	80
D	-	(90)	55	65
E	(60)	20	40	50

All projects are divisible, i.e., size of investment can be reduced, if necessary in relation to availability of funds. None of the projects can be delayed or undertaken more than once.

Calculate which project Alpha Limited should undertake, if the Capital available for investment is limited to ₹ 1,10,000 in the initial Year and with no limitation in subsequent years.

Use the following PV factors.

Year	0	1	2	3
Discounting Factor	1.00	0.89	0.80	0.71

Would your answer be different if the projects were indivisible and full utilization of budget is a primary consideration in decision-making?

(10 Marks)

Q.2: (a) Two companies, X and Y belong to the equivalent risk group. The two companies are identical in every respect except that company Y is levered, while X is unlevered. The outstanding amount of debt of the levered company is ₹ 6,00,000 in 10% debentures. The other information for the two companies is as follows:

Particulars	**X**	**Y**
Net operating income (EBIT)	₹ 1,50,000	₹ 1,50,000
Interest on debt (I)	---	(60,000)
Earnings to equity-holders (NI)	1,50,000	90,000
Equity capitalization rate (K_e)	0.15	0.20
Market value of equity	10,00,000	4,50,000
Market value of debt	---	6,00,000
Total value of firm (V)	**10,00,000**	**10,50,000**

An investor owns 5% equity shares of company Y. Show the process and the amount by which he could reduce his outlay through use of the arbitrage process. **(6 Marks)**

(b) What are various types of factors to be considered by a Venture Capitalist before financing a new project? **(4 Marks)**

Q.3: (a) The following information is available in respect of ABC Ltd.

Particulars	₹
EPS	10
Rate of return	20%
Required rate of return of equity investment (k_e)	16%

Find out the market price of the share under Gordon model if the firm follows a payout of 50% or 25%.

(6 Marks)

(b) Explain External Commercial Borrowings. **(4 Marks)**

Part B [Economics for Finance 20 Marks]

Q.4: (a) Suppose, Mr. X manufactures oximeters in India and export to Germany. Indian Government is very happy with Mr. X and decides to grant subsidy of ` 500 per oximeters which is being Exported to Germany. In such a case, what should be the reaction of German Government? **(3 Marks)**

(b) Not only import, but export is also required to be regulated in the course of international trade. Explain such measures for increasing, decreasing and controlling the activities of export in the interest of the nation. **(3 Marks)**

(c) Briefly explain Forward Forex Rate. **(2 Marks)**

(d) Explain Depreciation in Foreign exchange rate. **(2 Marks)**

Q.5: (a) How National Income is ascertained by applying Income Method? **(3 Marks)**

(b) Explain Consumption Function with Diagram. **(2 Marks)**

(c) What is meant by Gross Domestic Capital Formation? **(2 Marks)**

(d) In a two sector model economy, the business sector produces required:-

- **(i)** What is the money value of output being produced?
- **(ii)** What is the money income of households?
- **(iii)** If households spend 75% of their income, what is total consumption expenditure?
- **(iv)** What is the total money received by the business sector?
- **(v)** How the business sector will react to this in the future?

(3 Marks)