Time Allowed : 45 Minutes	Test - 4	Total Marks :25 Marks

Q.1 Book value weights vs. Market value weights. **(3 Marks)**

Q.2 A company issued 40,000, 12% redeemable preference of ₹ 100 shares each at a premium of ₹5, redeemable after 10 years at a premium of ₹10 each. The floatation cost of each share is ₹2.

You are required to calculate cost of preference share capital ignoring dividend tax.

(2 Marks)

Q.3 XYZ Ltd. has the following book value capital structure: **-** **(10 Marks)**

Equity Capital - ₹15 crores (in shares of ₹ 10 each fully paid up - at par)

Retained Earnings - ₹20 crores

11% Preference Capital - ₹1 crore (in shares of ₹100 each, fully paid up at par)

13.5% Debentures (of ₹100 each) - ₹10 crores

15% term Loans - ₹12.5 crores

The next expected dividend on equity share per share is ₹3.60; the dividend per share is expected to grow at the rate of 7%. The market price per share is ₹40.Preference stock, redeemable after ten years, is currently selling at ₹75 per share. Debentures, redeemable after six ears, are selling at ₹80 per debenture. The Income tax rate for the company is 40%.

Required: -

(i) Calculate the WACC using: -**(a)** Book value proportions and **(b)**market value proportions

(ii) Compute the weighted marginal cost of capital of the company, if it raises ₹10 crores next year, given the **following information**: -

a) The amount will be raised by equity and debt in equal proportions.

b) The company expects to retain ₹1.5 crores earnings next year which is to be utilised for financing the new project.

c) The additional issue of equity shares will result in the net price per share being fixed at ₹32.

d) The debt capital raised by way of term loans will cost 15% for the first ₹2.5 crores and 16% for the next ₹ 2.5 crores.

Q.4 "Fiscal Policy is an effective system for reduction in inequalities of Income and wealth". Give your comments. **(3 Marks)**

Q.5 Define Market Power. Mention the problems associated with it. **(2 Marks)**

Q.6 How government intervenes to correct externalities? **(2 Marks)**

Q.7 Briefly discuss the limitation of fiscal policy. **(3 Marks)**