

Checkpoint Exam 1 (Readings 1-38)

Question 1

Lurry Corporation executives are considering the purchase of a factory that produces after-market parts for classic cars. The purchase price is \$38 million. They have estimated the after-tax cash flows from operating the factory to be \$3 million at the end of Year 1, \$4 million at the end of Years 2 and 3, and \$5 million at the end of Years 4 and 5. After five years, they expect to be able to sell the factory for \$40 million. Based on the company's 9.5% estimate of its weighted average cost of capital, the net present value (NPV) for the factory is:

- A) \$0.98 million.
- B) \$3.18 million.
- C) \$4.12 million.

Question 2

An investor borrows \$3,000 at a 2.0% interest rate to supplement \$7,000 of his own equity. If the unleveraged portfolio loss is -3.0%, the leveraged return is *closest* to:

- A) -5.14%.
- B) -2.40%.
- C) 3.43%.

Question 3

A US investor buys shares in a Swiss company, at a price of CHF 5 per share. The exchange rate at the time of purchase was 1.2800 USD per CHF. After six months, the company pays a dividend of 0.17 CHF per share, and the investor sells its shares for CHF 5.25 each, when the exchange rate is 1.3105 USD per CHF. The return to the investor in USD is *closest* to:

- A) 8.40%.
- B) 10.98%.
- C) 14.06%.

Question 4

Using a money-weighted return to evaluate an investment manager's performance is appropriate if the manager:

- A) controls the cash flows into and out of the portfolio.
- B) holds investments denominated in multiple currencies.
- C) actively trades with an average holding period less than one year.

Question 5

The constituent stocks in a price-weighted index initially sum to \$400 with a divisor of 4.0 before one of the constituent stocks executes a 4-for-1 stock split. If this stock was trading at \$80 at the time of the stock split, the index divisor after the stock split is *closest* to:

- A) 3.4.
- B) 3.6.
- C) 4.0.

Question 6

The cash flows of a 3-year, 6% coupon, annual-pay bond with a face value of \$1,000 can be replicated with the cash flows of a 3-year annuity that pays \$60 per year and a zero-coupon bond that pays:

- A) \$1,000 in the third year.
- B) \$1,060 in the third year.
- C) \$1,000 in the fourth year.