



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Course Code & Name : **FIN5104 Applied Corporate Finance and Economics**  
 Trimester & Year : May – August 2019  
 Lecturer/Examiner : Leow Hon Wei  
 Duration : 3 Hours

### INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
  - PART A (60 marks) : Answer all THREE (3) structure answer questions. Answers are to be written in the Answer Booklet provided.**
  - PART B (40 marks) : Answer all THREE (3) structure answer questions. Answers are to be written in the Answer Booklet provided.**
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
- Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

**Total Number of pages = 4 (Including the cover page)**

### **CORPORATE DECISION MAKING FOR VARIOUS INVESTMENT TOOLS**

A fair statement regarding Security Market Line (SML), especially those outside the United States is that everybody talks about them but few people understand them. Even those investors familiar with widely publicized stock-market series, such as the Dow Jones Industrial Average (DJIA), usually know little about indexes for the U.S bond market or for non-U.S. stock markets such as Tokyo or London.

Although portfolios are obviously composed of many different individual stocks, investors typically ask, "What happened to the market today?" The reason for this question is that if an investor owns more than a few stocks or bonds, it is cumbersome to follow each stock or bond individually to determine the composite performance of the portfolio and company projects. Also, there is an intuitive notion that most individual stocks or bonds move with the aggregate market. Therefore, if the overall market rose, an individual's portfolio probably also increased in value. To supply investors with a composite report on market performance some financial publications or investment firms have created and maintain stock-market and bond-market indexes that relate to capital budgeting of a firm.

For security market indexes, there are several essential approaches such as top down and bottom up used by investors for share valuation. An awareness of these significant fundamental analysis and technical analysis should provide an incentive for becoming familiar with these approaches. In addition, consider what characteristics cause various indexes to differ. Investors need to understand these differences and why one index is preferable for a given task because of its characteristics. Next, the most well-known U.S and global stock-market indexes, separated into groups based on the weighting scheme used. Finally, bond-market indexes that are becoming a more important topic because the bond market continues to grow in size and importance for individuals and institutions.

Again, we consider international bond indexes following the domestic indexes, the composite stock market-bond market series and alternative indexes relate to each other over monthly interval. This demonstrates the important factors that cause high or low correlation among the different bonds. With this background, it enables to make an intelligent choice of the market index that is best for you based on how you want to use it.

For an example, the China Shenhua Energy story is typical, and it illustrates that capital budgeting is critically important booth to companies and to the economy. The principles set forth will help you make the right choices regarding which projects to accept and which to reject for the three recent proposals: the Project X, Project Y. All figures are in thousands of dollars:

Table 1: Capital Budgeting Decision for Project X and Y

Cash Flow	Project X	Project Y
Weighted Average Cost of Capital (WACC) = 10%		
Initial Investment	-\$9,000	-\$9,000
Cash flow year 1	1,500	3,000
Cash flow year 2	2,500	3,000
Cash flow year 3	3,500	3,000
Cash flow year 4	4,500	3,000

Sources: Adapted and modified from Koh, Ang, Brigham and Ehrhardt (2014), *Financial Management: Theory and Practice*, Cengage Learning and Gitman (2012), *Principles of Managerial Finance*, 13th Edition, Pearson Addison Wesley and Ross, Westerfield, Jordan (2015), *Essential of Corporate Finance*, 8th Edition, Mc Graw Hill.

### Question 1

Evaluate the capital budgeting for Project X and Y

- a) Net Present Value (NPV), (5 marks)
- b) Payback Period (PP), (3 marks)
- c) Discount Payback Period (DPP), (3 marks)
- d) Internal Rate of Return (IRR), (5 marks)
- e) Modified Internal Rate Of Return (MIRR) (5 marks)
- f) Profitability Index (PI) (3 marks)

[Total = 24 marks]

### Question 2

Propose your recommendation to the management whether to accept or reject these two projects based on the evaluation of Question 1.

(24 marks)

### Question 3

Analysis **TWO (2)** macroenvironment factor and microenvironment factors that affect the capital budgeting decision in corporate level respectively.

(12 marks)

## END OF PART A

### PART B : STRUCTURE QUESTIONS (40 MARKS)

**INSTRUCTION(S)** : Answer all **THREE (3)** questions. Write your answers in the Answer booklet(s) provided.

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#### Question 1

Bond valuation is the determination of the fair price of a bond. As with any security or capital investment, the theoretical fair value of a bond is the present value of the stream of cash flows it is expected to generate. Analyse any **FIVE (5)** factors that affect the bond valuation when making decision.

(15 marks)

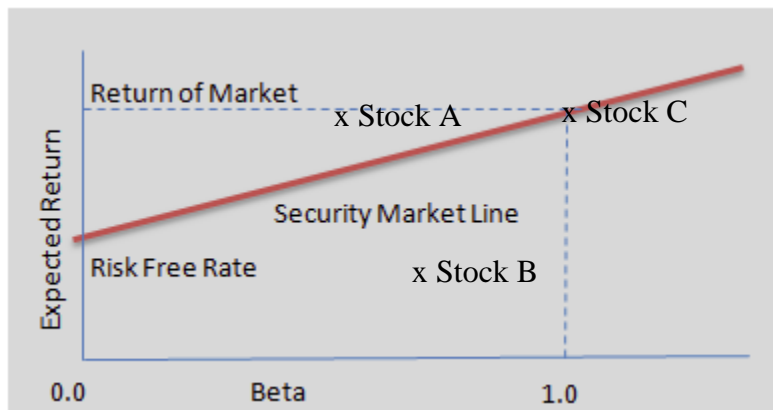
#### Question 2

Besides the bond and stock investment that is commonly traded in financial market, option is one of the vital hedging tool for corporate investment. Analyse how the investors could benefit from the PUT option that used in investment.

(15 marks)

#### Question 3

Interpret the Security Market Line (SML) that enables the investors to make decision on the stock selection for the stock A, B and C.



(10 marks)

**END OF QUESTION PAPER**