No. of Printed Pages : 3 **MCQ-042**

POST GRADUATE DIPLOMA IN RURAL DEVELOPMENT BANKING (PGDRBI)

00552

Term-End Examination

June, 2012

MCQ-042 : FINANCIAL MANAGEMENT

Time : 3 hours *Maximum Marks : 100*

Note : *Attempt **any five** questions. All questions carrry **equal** marks of **20** each.*

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1. (a) Why is cost of capital important for a bank ? Discuss some of the relevant rates which are considered useful while deciding the cost of capital of bank ? Explain the concept of Base rate.

(b) Explain how financial margin of a Bank is computed ?

2. The following cash-flow streams need to be analysed :

CASH-FLOW STREAM	END OF YEAR (amount in lakh Rs.)				
	1	**2**	**3**	**4**	**5**
W	100	200	200	300	300
X	600	-	-	-	-
Y	-	-	-	-	1,200
Z	200	-	500	-	300

(a) Calculate the future (terminal) value of each stream at the end of year 5 with a compound annual interest rate of 10 percent.

(b) Compute the present value of each stream if the discount rate is 14 percent.

3. Write short notes on **any four** of the following :

(a) Difference between Gross and Net NPA

(b) Call Money Market

(c) Sinking Fund

(d) Liquidity Risk

(e) Business Entity Concept

(f) Interest Rate Risk

4. ABC Company is considering a new product line to supplement its range line. It is anticipated that the new product line which will involve cash investment of Rs. 7,00,000 at time 0 and Rs. 1.0 million in year 1. After-tax cash inflows of Rs. 2,50,000 are expected in year 2, Rs. 300,000 in the year 3, Rs. 3,50,000 in the year 4 and Rs. 4,00,000 each year thereafter through year 10. Though the product line might be viable after year 10, company prefers to be conservative and end all calculations at that time.

(a) If the required rate of return is 15 percent, what is the net present value of the project ? Is it acceptable ?

(b) What is internal rate of return ?

(c) What would be the case if the required rate of return was 10 percent ?

(d) What is the project payback period ?

5. You borrow Rs. 10,000 at 14 percent compound annual interest for four years. The loan is repayable in four equal annual instalments payable at the end of each year.

   (a) What is the annual payment that will completely amortize the loan over four years ? (You may wish to round to the nearest rupee)

   (b) Of each equal payment, what is the amount of interest ? The amount of loan principal. (Hint : In early years, the payment is composed largely of interest, whereas at the end it is mainly principal)

6. Suppose the government is proposing to sell a 5-year bond of Rs 1,000 at 8 per cent rate of interest per annum. The bond amount will be amortised (repaid) equally over its life. If an investor has a minimum required rate of return of 7 per cent, what is the bond's present value for him ?

7. The market price of a Rs. 1,000 par value bond carrying a coupon rate of 14 per cent and maturing after 5 years in Rs. 1050. What is the Yield To Maturity (YTM) on this bond ? What is the approximate YTM ? What will be the realized yield to maturity if the reinvestment rate is 12 per cent ?
