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**MS-42**

**MANAGEMENT PROGRAMME (MP)**

**Term-End Examination**

**June, 2023**

**MS-42 : CAPITAL INVESTMENT AND  
FINANCING DECISIONS**

*Time : 3 Hours*

*Maximum Marks : 100*

*(Weightage : 70%)*

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**Note :** *Attempt any **five** questions. All questions carry equal marks.*

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1. Why is the cost of capital considered as the minimum acceptable rate of return on an investment ? Describe the various methods through which cost of equity capital is ascertained.
2. Explain the nature of a project and discuss how projects are classified. Describe the project life cycle concept.

**P. T. O.**

3. Write short notes on any *four* from the following :
- (a) Social-Benefit analysis
  - (b) Sensitivity analysis
  - (c) Global sources of financing
  - (d) Role of banks in term finance
  - (e) Asset securitization
4. What do you understand by project control ? Describe the various types of control processes.
5. What do you understand by Asset Betas ? How is debt beta derived from asset beta ? Discuss the factors that determine asset betas.
6. Discuss the factors influencing dividend policy of a firm and describe the Gordon's model of dividend policy.
7. What is 'Financial Engineering' ? Discuss the factors contributing to growth of financial engineering and give few examples of such instruments in equity and debt markets.

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8. Shyam and Ghanshyam Ltd. is a manufacturer of high end precision systems. It has a total sales of ₹ 5 crores. Its variable and fixed cost amounts to ₹ 3 crore and ₹ 50 lakhs respectively. It has borrowed ₹ 3 crores @ 10% per annum and has an equity capital of ₹ 3.75 crore.

You are required to calculate/comment :

- (a) Company's return on investment.
- (b) Does the company have favourable financial leverage ?
- (c) If the industry's average asset turnover is 1, does it have a high or low asset leverage ?
- (d) What is the operating, financial and combined leverage of the firm ?
- (e) If the sales drop to ₹ 2.5 crore, what will be the new EBIT ?