

MANAGEMENT PROGRAMME

Term-End Examination

December, 2014

MS-42 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours

Maximum Marks : 100

Weightage : 70%

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

1. What is 'cost of capital' ? How is it calculated for different sources of capital ? How is average weighted cost of capital measured ?
2. Define and explain the term, 'Capital Structure'. Critically examine the Net Income approach and Net Operating Income approach to capital structure theories.
3. What is meant by 'Economic Appraisal' of a project ? Discuss the variables that are considered for economic appraisal of a project.
4. What do you understand by Project Monitoring ? How is the monitoring system designed ? Discuss the application of Earned Value Chart in project monitoring.

5. What are the major global sources of financing ? Distinguish between Foreign Direct Investment and Portfolio Investment.
6. What are the Non-Traditional sources of long term financing ?
Evaluate :
 - (a) leasing
 - (b) suppliers credit and
 - (c) venture capital
 as sources of long term finance.
7. What is Modigliani-Miller irrelevance hypothesis ? Critically evaluate its assumptions.
8. The following statements provide the quantitative considerations relevant for the ranking of projects A and B :

Criteria	Project - A	Project - B
Investment	Rs. 400	Rs. 300
Internal rate of return	18%	20%
Net present value at 6% discount factor	Rs. 142.7	Rs. 121.2
Net present value at 12% discount factor	Rs. 60.5	Rs. 60.5

The expected cash inflows for project A are Rs. 110, Rs. 120, Rs. 130, Rs. 140 and Rs. 150 over its five year economic life. Project B is expected to have cash inflows of Rs. 100 during each of the next five years.

Which of the two projects will you select if the cost of the capital is (a) 10 percent (b) 12 percent (c) 15 percent respectively. Give reasons in support of your answer. The PV factors at 10%, 12%, 15% are as follows :

Discount rate \ Year	10%	12%	15%
1	.909	.893	.870
2	.826	.797	.756
3	.751	.712	.658
4	.683	.636	.572
5	.621	.567	.497
