

**MANAGEMENT PROGRAMME**  
**Term-End Examination**

**December, 2022**

**MS-042 : 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. Explain the concept of 'Cost of Capital'. Why is the cost of capital considered as the minimum acceptable rate of return on investment ? Briefly discuss the various methods used to calculate cost of equity capital.
2. What is 'Capital Budgeting' ? Explain the process of estimating cash flows for capital budgeting and discuss the general principles involved in evaluating investment proposals.
3. Explain the various aspects of 'Economic Appraisal'. Discuss the concept of social discount rate in the context of project choice.

4. What is the relationship between required rate of return and Project Beta ? Discuss the application of 'Capital Asset Pricing Model (CAPM)' in estimating risk adjusted discount rate and explain its use in coping with risk in capital budgeting.
5. Write short notes on any *four* of the following :
  - (a) Cumulative Convertible Preference Shares (CCP)
  - (b) Warrants
  - (c) Bonds
  - (d) Venture Capital
  - (e) Suppliers Credit
6. Explain in detail the general financing norms used by the financial institutions pre and post sanction of loans advanced by them.
7. Explain the Modigliani-Miller Hypothesis regarding dividends. Discuss the conditions under which conclusions drawn by them would not be valid.
8. What are the various forms of mergers ? Discuss the motive for mergers and explain how mergers are a source of value addition.