

No. of Printed Pages : 3

MS-42

MANAGEMENT PROGRAMME

Term-End Examination

December, 2010

03080

MS-42 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours

Maximum Marks : 100
(Weightage 70%)

Note :

- (i) *Attempt any five questions.*
 - (ii) *All questions carry equal marks.*
 - (iii) *Present value tables would be provided, if asked for. Use of calculator is allowed.*
-

1. Swan Industries Ltd. has assets of Rs. 1,60,000 which have been financed with Rs. 52,000 of debt and Rs. 90,000 of equity and general reserve of Rs. 18,000. The firm's total profit after interest and taxes for the year ended 31st March 2008 was Rs. 13,500. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs. 100 each selling at market price of Rs. 120 per share. What is the weighted average cost of capital.

2. What are the criteria on which the capital structure of the firm is determined ? Discuss the factors influencing the pattern of capital structure.
3. What is meant by economic appraisal ? Explain the various economic aggregates analysed during economic appraisal process.
4. What is the purpose of control ? Explain the information needs and the reporting process for project control.
5. Write explanatory notes on *any four* :
 - (i) Probability distribution.
 - (ii) Sensitivity analysis.
 - (iii) Decision tree analysis.
 - (iv) Asset Betas and Equity Betas.
 - (v) Asset Securitization.
 - (vi) Cost of retained earnings.
6. Explain the various financial instruments through which companies can raise funds from capital markets.

7. What is financial engineering and explain those factors that contribute towards financial engineering ? Discuss the innovations that have taken place in fixed income securities.

 8. Discuss various forms of mergers. What are the driving forces for mergers and acquisitions ?
-