

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**

**PGDM / PGDM (M) / PGDM (SM)**

**SECOND TRIMESTER (Batch 2017-19)**

**MID-TERM EXAMINATIONS, NOVEMBER 2017**

Course Name	<b>Financial Management – 1</b>	Course Code	<b>FIN 202</b>
Max. Time	<b>1 hour</b>	Max. Marks	<b>20 MM</b>

**INSTRUCTIONS: Attempt all questions. Students are required to bring their own tables.**

Q1. A company is considering as to which of the two mutually exclusive projects it should undertake. The finance director thinks that the project with the higher NPV should be chosen whereas the managing director thinks that the one with the higher IRR should be undertaken, especially as both projects have the same initial outlay of Rs. 200 million and length of life. The company anticipates a cost of capital of 10 per cent and the net after tax cash flows are Rs. 35 million, Rs. 80 million, Rs. 90 million, Rs. 75 million and Rs. 20 million for the next five years for Project A and Rs. 218 million, Rs. 10 million, Rs. 10 million, Rs. 4 million and Rs. 3 million for the next five years for Project B. (4+1+1 marks)

- Determine NPV and IRR of each project.
- State, giving reasons, which project would you recommend.
- Explain the inconsistency in the ranking of the two projects, if any.

Q2. You buy a house for Rs 5 lakh and immediately makes cash payment of Rs 1lakh. You finance the balance amount at 12% for 3 years with equal annual installments. How much are the annual installments? How much of the each payment goes towards reducing the principal? (5 marks)

Q3. Consider the following information about two stocks where the probability of an economic boom is 40%:

Economic State	Return A ( $R_A$ )	Return B ( $R_B$ )
<b>Boom</b>	38%	6%
<b>Recession</b>	-4%	12%

Using relevant calculations show the stock that you would invest in and why? (5 marks)

Q4. Define systematic and unsystematic risks with examples and elaborate three points of differences between the two. Write your answer in a tabular form. (4 marks)