JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM G/S/M 2016-18 BATCH, TRIMESTER- II
MID - TERM, NOVEMBER 2016

SUBJECT: Financial Management-1 (FIN 102)

Time: 1 Hr **Max. Marks: 20**
INSTRUCTIONS: All questions are compulsory

Q1. You have a chance to buy an annuity that pays $1,000 at the end of each year for 5 years. You could earn 6% on your money in other investments with equal risk. What is the most you should pay for the annuity?

(4 Marks)

Q2. Acme Mfg is considering two projects, A & B, with cash flows as shown below:

Period	CF_A	CF_B
0	-50,000	-100,000
1	20,000	60,000
2	20,000	25,000
3	20,000	25,000
4	20,000	25,000

The opportunity cost of capital for A is 14 percent. The opportunity cost of capital for B is 10 percent.
a. Calculate the NPV for each project.
b. Calculate the IRR for each project.
c. Which project(s) should be accepted in each of the following situations?
(1) The projects are mutually exclusive and there is no capital constraint.
(2) The projects are independent and there is no capital constraint.
(3) The projects are independent and there is a total of $100,000 of financing for capital outlays in the coming period.

(10 Marks)

Q3. Why is MIRR a better measure than IRR? (3 Marks)

Q4. The following graph depicts the expected returns and standard deviations of 5 different assets. You are a risk-averse investor who plans to invest in one (and only one) of those assets. You have no other information on the assets. Which assets would you definitely NOT choose? Which of the remaining assets you would choose? **BRIEFLY** explain.

(3 Marks)