LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**B.A.,** DEGREE EXAMINATION – **ECONOMICS**

SIXTH SEMESTER – NOVEMBER 2012

# EC 6602 – FINANCIAL MANAGEMENT

Date : 5/11/2012 Dept. No. Max. : 100 Marks

Time : 1.00 – 4.00

**PART-A**

**Answer any FIVE questions in about 75 words each: (5x4=20)**

1. Discuss the relationship of financial management to Economics.

2. What are the different ways of classifying financial markets?

3. What are the principal tasks of SEBI?

4. Determine the present value of the following cash stream if the discount rate is 14 %.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Cash flow | 5000 | 6000 | 8000 | 9000 | 8000 |

5. A Rs 100 par value bond bearing a coupon rate of 12% will mature after 5 years. What

is the value of the bond, if the discount rate is 15%?

6. Explain Implicit and Explicit cost.

7. If you deposit Rs 1000 annually in a bank for 5 years and your deposits earn a

compound interest rate of 10 percent. What will be the value of this series of deposit at

the end of 5 years?

**PART-B**

**Answer any FOUR questions in about 300 words each: (4x10=40)**

8. Explain the various forms of business organization.

9. “Financial management is in many ways an integral part of the jobs of the managers”-

Comment.

10. Discuss the functions of a financial system.

11. (a) The project X cost Rs 1,00,000 and its expected cash flows are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| cash flow | 20000 | 30000 | 40000 | 50000 | 30000 |

The cost of capital is12% calculate the net present value

(b) A company has 15% perpetual debt of Rs 100000. The tax rate is 50%. Determine

the cost of capital (before tax as well as after tax) assuming that the debt is issued at (i)

par, (ii) 10% discount, and (iii) 10% premium.

12. Explain the equilibrium in financial markets.

13. The market price of a Rs1000 par value bond carrying a coupon rate of 14percent and

maturing after 5 years is Rs 1050. What is the YTM on this bond? What is the

approximate YTM? What will be realized YTM if the reinvestment rate is 12 percent

14. A company issues 14% irredeemable preference shares of the face value of Rs 100

each. Flotation costs are estimated as 5% of the expected sale price .What is the

cost of preference capital if preference shares are issued at (i) par value (10%)

premium and (iii) 5% discount?

**PART-C**

**Answer any TWO questions in about 900 words each: (2x20=40)**

15. Explain the nature and scope of Business finance.

16. Discuss the measurement of Cost of Capital

17. A company has on its books the following information:

|  |  |  |  |
| --- | --- | --- | --- |
| Type of capital | Book value | Market value | Specific costs |
| Debt | 300000 | 270000 | 8% |
| Preference capital | 200000 | 230000 | 14% |
| Equity capital | 500000 | 600000 | 17% |
| Retained Earnings |  | 150000 | 17% |
| Total | 1000000 | 1250000 |  |

Determine the weighted average cost of capital using (a) Book value weights (b) Market value weights.

18. a) Discuss the various components of financial system.

b) Explain the indicators of financial development.

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