Time: 2 hours

University of Palestine



Final Exam
First semester
2013/2014
Total Grade: 100

Instructor Name: Mohammed Bahloul
Student No.:

Student No.:
Student Name:
College Name:

Business

Dep. / Specialist: _

First Question Multiple Choice 30 Points

- 1. Which of the following statements best describes what would be expected to happen as you randomly add stocks to your portfolio?
 - a. Adding more stocks to your portfolio reduces the portfolio's company-specific risk.
 - b. Adding more stocks to your portfolio reduces the beta of your portfolio.
 - c. Adding more stocks to your portfolio increases the portfolio's expected return.
 - d. Statements a and c are correct.
 - e. All of the statements above are correct.
- 2. Which of the following is not considered a capital component for the purpose of calculating the weighted average cost of capital (WACC) as it applies to capital budgeting?
 - a. Long-term debt.
 - b. Common stock.
 - c. Accounts payable and accruals.
 - d. Preferred stock.
- 3. Which of the following statements is most correct?
 - a. The WACC measures the after-tax cost of capital.
 - b. The WACC measures the marginal cost of capital.
 - c. There is no cost associated with using retained earnings.
 - d. Statements a and b are correct.
 - e. All of the statements above are correct.
- 4. Which of the following statements is most correct?
 - a. The WACC is a measure of the before-tax cost of capital.
 - b. Typically the after-tax cost of debt financing exceeds the after-tax cost of equity financing.
 - c. The WACC measures the marginal after-tax cost of capital.
 - d. Statements a and b are correct.
 - e. Statements b and c are correct.
- 5. A major disadvantage of the payback period is that it
 - a. Is useless as a risk indicator.
 - b. Ignores cash flows beyond the payback period.
 - c. Does not directly account for the time value of money.
 - d. Statements b and c are correct.
 - e. All of the statements above are correct.

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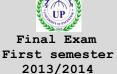
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- 6. In the real world, we find that dividends
 - a. Usually exhibit greater stability than earnings.
 - b. Fluctuate more widely than earnings.
 - c. Tend to be a lower percentage of earnings for mature firms.
 - d. Are usually changed every year to reflect earnings changes.
 - e. Are usually set as a fixed percentage of earnings.
- 7. A decrease in a firm's willingness to pay dividends is likely to result from an increase in its
 - a. Earnings stability.
 - b. Access to capital markets.
 - c. Profitable investment opportunities.
 - d. Collection of accounts receivable.
 - e. Stock price.
- 8. Which of the following would not have an influence on the optimal dividend policy?
 - a. The possibility of accelerating or delaying investment projects.
 - b. A strong shareholders' preference for current income versus capital gains.
 - c. Bond indenture constraints.
 - d. The costs associated with selling new common stock.
 - e. All of the statements above can have an effect on dividend policy.
- 9. If a firm adheres strictly to the residual dividend policy, a sale of new common stock by the company would suggest that
 - a. The dividend payout ratio has remained constant.
 - b. The dividend payout ratio is increasing.
 - c. No dividends were paid for the year.
 - d. The dividend payout ratio is decreasing.
 - e. The dollar amount of investments has decreased.
- 10. Other things held constant, which of the following will cause an increase in working capital?
 - a. Cash is used to buy marketable securities.
 - b. A cash dividend is declared and paid.
 - c. Merchandise is sold at a profit, but the sale is on credit.
 - d. Long-term bonds are retired with the proceeds of a preferred stock issue.
 - e. Missing inventory is written off against retained earnings.

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Second Question	Answer the following Questions	32 Points
1. What sources of long-to	erm capital do firms use?	
2. Why is there a cost for	retained earnings?	
2. What are the three type	os of project risk?	
3. What are the three type	s of project risk?	
4 W/L-4 :- 4 1:55		
4. What is the difference i	between independent and mutually exclusive p	brojects?
5. What is the difference b	between normal and nonnormal cash flow stre	ams?

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	estors prefer capital gains?	
7. What are the three Wor	rking capital financing policies?	
8. List the advantages and	I disadvantages of using short-term financing?	
Third Question	Define each of the following	16 Points
1. Risk Aversion		
2. Diversifiable risk		

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Fourth Question	22 Po	int

1. Measuring Stand-Alone Risk: Calculate the Standard deviation Given the actual expected return = 10%

Probability	Rate of Return
of This	if This
Demand	Demand
Occurring	Occurs
0.3	15%
0.4	10%
0.3	5%
	_
	of This Demand Occurring 0.3 0.4

2. Given the following data were taken from the latest financial statements for a stable working company? Calculate the cash conversion cycle(CCC)?

Annual Sales	\$1,216,666
Cost of goods sold	\$1013889
Inventory	\$250000
Accounts receivable	\$300000
Accounts payable	\$150000

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