Assignment 2

Due on: 30-03-12, 23:59 IST.

1. At what interest rate, Rs. 6 lakhs invested today will be worth Rs. 10 lakhs in 5 years? Choose the correct option:
   A) 4% B) 6% C) 8% D) 10% 1 point

No, the answer is incorrect. Accepted Answers: A

2. Consider the following statements in the context of sensitivity analysis:
   Statement: 1 - Sensitivity analysis aimed at studying the impact of changes in the value of variable(s) on the economic decision in a particular situation.
   Statement: 2 - Sensitivity analysis is basically a probabilistic technique, as it considers probability of occurrence associated with variation in variables.
   Which of the following is CORRECT?
   A) Both statements are TRUE
   B) Statement 1 is TRUE and Statement 2 is FALSE
   C) Statement 1 is FALSE and Statement 2 is TRUE
   D) Both statements are FALSE 1 point

No, the answer is incorrect. Accepted Answers: A

3. Consider the following statements in the context of time value of money:
   Statement: 1 - As the interest rate decreases the present net value (NPV) of a cash flow increases.
   Statement: 2 - Uniform series compound amount factor is calculated using the sum of individual single payment present worth factors in a cash flow.
   Which of the following is CORRECT?
   A) Both statements are TRUE
   B) Statement 1 is FALSE and Statement 2 is TRUE
   C) Statement 1 is TRUE and Statement 2 is FALSE
   D) Both statements are FALSE 1 point

No, the answer is incorrect. Accepted Answers: A

4. Consider the following statements in the context of repayment of a loan:
   Statement 1: A series of annuities received at the end of each year for a finite period is known as ordinary annuity.
   Statement 2: For a loan amount operated at a specified annual interest rate, there exists a minimum installment (recovery amount) that a borrower must pay to clear the loan.
   Which of the following is CORRECT?
   A) Both statements are TRUE
   B) Statement 1 is FALSE and Statement 2 is TRUE
   C) Statement 1 is TRUE and Statement 2 is FALSE
   D) Both statements are FALSE 1 point

No, the answer is incorrect. Accepted Answers: A

5. A piece of land was purchased at Rs. 40 lakhs. An investment of an additional Rs. 20 lakhs has been made to construct a small shopping complex on this piece of land. It is expected to fetch an annual rental of Rs. 75,000 to the owner, while the cost towards its upkeep, tax, etc., is expected to be Rs. 30,000 annually. The owner plans to sell the entire plot with constructed facilities at an expected price of Rs. 125 lakhs at the end of five years. What percent rate of return will be earned by the owner on this investment?
   A) 20% B) 15% C) 10% D) 8% 1 point

No, the answer is incorrect. Accepted Answers: B

6. The acquisition cost of a new equipment is Rs. 5, 50,000. The savings in the operating cost at the end of 10 years is estimated to be Rs. 10, 000 every year (scenario 1) and Rs. 10, 000 every year (scenario 2). While considering both the scenarios to buy a new equipment, choose the correct statement:
   A) Acquire the new equipment for both the scenarios
   B) Do not acquire the new equipment for any of the scenarios
   C) Acquire the new equipment for scenario 1 only
   D) Acquire the new equipment for scenario 2 only
   E) None of the above

No, the answer is incorrect. Accepted Answers: E

7. The balance sheet of two projects are given below. With the help of increased rate of return method, choose the correct option:

<table>
<thead>
<tr>
<th>Project X</th>
<th>Project Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>50,000</td>
<td>6,000</td>
</tr>
<tr>
<td>40,000</td>
<td>6,000</td>
</tr>
</tbody>
</table>

   Given:
   (\(\begin{align*}
   (TF, 10\% , 1) &= 0.9091; \ 
   (TF, 10\% , 2) &= 0.8264; \ 
   (TF, 10\% , 3) &= 0.7513; \ 
   (TF, 10\% , 4) &= 0.683 \ 
   (PF, 10\% , 1) &= 0.9091; \ 
   (PF, 10\% , 2) &= 0.8264; \ 
   (PF, 10\% , 3) &= 0.7513; \ 
   (PF, 10\% , 4) &= 0.683
   \end{align*}\) )

   A) 10% B) 15% C) 20% D) 25% 1 point

No, the answer is incorrect. Accepted Answers: B

8. The balance sheet of two projects are given below. With the help of increased rate of return method, choose the correct option:

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   (PF, 10\% , 3) &= 0.7513; \ 
   (PF, 10\% , 4) &= 0.683
   \end{align*}\) )

   A) 10% B) 15% C) 20% D) 25% 1 point

No, the answer is incorrect. Accepted Answers: C

End of Year: 0 1 2 3 4

Project X: 50,000 6,000 17,500 26,000 42,500

Project Y: 40,000 6,000 15,000 15,000

Given:
\(\begin{align*}
(\text{TF}, 10\% , 1) &= 0.9091; \ 
(\text{TF}, 10\% , 2) &= 0.8264; \ 
(\text{TF}, 10\% , 3) &= 0.7513; \ 
(\text{TF}, 10\% , 4) &= 0.683; \ 
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(\text{PF}, 10\% , 2) &= 0.8264; \ 
(\text{PF}, 10\% , 3) &= 0.7513; \ 
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\end{align*}\)