

Unit 5 - Week 3

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Assignment 3

The due date for submitting this assignment has passed. **Due on 2020-02-19, 23:59 IST.**
As per our records you have not submitted this assignment.

- Using dividend discount model, which of the following factor causes an increase in the value of assets?
 - An increase in the amount of cash flow (i.e., dividends) to be received from the asset
 - Later receipt of the expected cash flow
 - An increase in the required rate of return
 - All of the above

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- The value of a stock that paid a \$2 dividend last year, if dividends are expected to grow at 5% forever and the required rate of return on equity is 12% is closest to _____
 - 20.00
 - 25.32
 - 28.57
 - 30.00

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: d
- The value of a stock that will pay a INR 2 dividend next year and will be sold for INR 40 at year end is closest to _____. Assume that the required rate of return is 15%.
 - INR 33.54
 - INR 36.52
 - INR 43.95
 - INR 45.82

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- Suppose ABC stock sells for INR 21. The next year's dividend is expected to be \$1. ABC's expected ROE is 12%, and ABC is expected to pay out 40% of its earnings. What is ABC's cost of equity?
 - 10%
 - 11%
 - 12%
 - 15%

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: c
- The cash flows used for valuation of equity include dividend, operating cash flow and free cash flow
 - True
 - False

a
 b

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- Even if two banks have the same current earnings, their market prices can sharply differ
 - True
 - False

a
 b

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- The value of a 7 year 9% bond with a discount rate of 8% when compounded continuously is the closest to (assume par value= \$1000)
 - 2629.41
 - 2556.40
 - 1034.56
 - 968.267

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: c
- A 10% coupon bond pays interest annually and is issued at par with a price INR100. It matures in 7 yrs. The duration of the bond is closest to _____ years:
 - 3.62
 - 5.36
 - 6.73
 - 7.23

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- With an annual interest of 9% compounded continuously for 2 years, the future value of an investment of 1000 will be the closest to _____
 - \$2188.35
 - \$1197.22
 - \$1094.17
 - \$835.27

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- The table below provides information on average trailing 12-month price-to-earning (P/E), price-to-cash flow (P/CF), and price-to-sales (P/S) for the XYZ Corporation for the years 2011 to 2014. On 2015, the trailing 12-month P/E, P/CF, and P/S are respectively 8.5, 9.3 and 3. Based on the information provided, it may reasonably conclude that XYZ shares are most likely:

Year	P/E	P/CF	P/S
2011	5.9	6.4	2.2
2012	7.1	9.6	2.5
2013	9.3	8.3	2.9
2014	9.9	8.9	3.3

 - Overvalued
 - Undervalued
 - Fairly valued
 - Not enough information

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- Consider a 10 year 7% annual coupon bond with Face Value = \$ 1000 and required rate of return of 11%. Which of the following is the closest approximation to the value of the bond?
 - \$764.43
 - \$805.15
 - \$358.07
 - \$356.49

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- Calculate the Effective Annual Rate of a bond with 15% interest compounded monthly
 - 16.1834%
 - 15.8650%
 - 16.0755%
 - 16.1798%

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: c
- The value of a \$25000 face value bond with a 6.5% coupon rate when the required rate of return is 12.3% is
 - Greater than its Face Value
 - Lesser than its Face Value
 - Equal to \$25000
 - Not enough information is available to conclude

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- The yield curve shows the relationship between the price of the bond and yield
 - True
 - False

a
 b

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- At issue, zero coupon bonds typically sell at _____
 - Premium
 - Discount
 - Par
 - At or near par

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- Macaulay's duration is equal to the bond's term to maturity.
 - True
 - False

a
 b

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- A bond portfolio consists of the following three fixed-rate bonds. Assume annual coupon payments and no accrued interest on the bonds. Prices are per 100 of par.

Bond	Maturity	Market Value	Modified Duration
A	7 years	2,70,000	5.42
B	11 years	2,20,000	8.44
C	15 years	2,00,000	10.38

 The bond's portfolio's modified duration is closest to:
 - 7.82
 - 8.08
 - 8.20
 - 8.95

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: a
- Ceteris Paribus, the price of a discounted bond can decrease as it moves towards maturity
 - True
 - False

a
 b

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- What is the relationship between interest rate and bond prices?
 - Interest rate and bond prices move in the same direction
 - Interest rate and bond prices move in opposite direction
 - Relationship is ambiguous
 - They are independent of each other

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: b
- Ram purchased a bond with a specified interest rate of 16%. He has invested \$100,000. Assuming that the bond is compounded annually, which of the following statement(s) is true?
 - The real interest rate is 16%
 - The effective interest rate will be more than 16%
 - Both effective interest rate and nominal interest rate will be 16%
 - None of the above

a
 b
 c
 d

No, the answer is incorrect.
Score: 0
Accepted Answers: c