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MGT-201(Financial Management)

Fall-2009(Finalterm Paper)

Subjective Questions

1- Where do firm invest excess funds until they are needed to pay bills? (Marks=3)

2- What strategies can be used by the target firms to responds to hostile raid? (Marks=5)

3- Company ABC wants to issue more common stock face value Rs.10. Next year the Dividend is expected to be Rs.2 per share assuming a Dividend growth rate of 10%pa. The lawyers' fee and stock broker commission will cost Rs.1 per share. Investors are confident about company ABC so the common share is floated at market price of Rs.16 (i.e. Premium of Rs.6). If the capital structure of company ABC is entering common equity then what is the company **WACC**? Use Retained Earning Approach to calculate the result. (Marks=5)

4- If the Capital Asset Pricing Method Approach is appropriate, compute the required rate of return for each of following stocks. Assume a risk free rate of 0.09 and expected return for the market portfolio of 0.12. (Marks=10)

Stock	A	B	C	D	E
Beta	2.0	1.5	1.0	0.7	0.2

5- **Longstreet Communication Inc.(LCI)** has the following capital structure which is consider to be optimal.

Debt	Preferred Stock	Common Stock	**Total Capital**
25%	15%	60%	**100%**

LCI's net income expected this year is $17,142.86, its established dividend payout ratio is 30%, its tax ratio is 40%, and investor expect earning and dividend to grow at a constant rate of 9% in the future. LCI paid a dividend of $3.60 per share last year(D_0) and its stock currently sells at a price of $60 per share. Treasury Bond yield 11% and average has a 14% expected rate of return and LCI beta is 1.51. The following terms apply to new security offering.

Common: New common stock would have floatation cost of 10%.

Preferred: New preferred stock could be sold to the public at price of $100 per share, with a dividend of $11.

Debt: Debt could be sold at interest rate of 12%.

(A)- Find the Component Cost of Debt, Preferred Stock, Retained Earning and New Common Stock? (Marks=7)

(B)- How much new capital could be raised before LCI must sell new equity? (Marks=3)

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