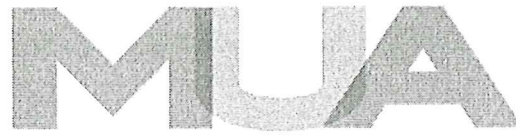


The
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POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

MASTER OF MANAGEMENT AND LEADERSHIP

MML 5202: STRATEGIC FINANCIAL MANAGEMENT

DATE: 20TH JULY 2022

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

CASE STUDY

Assume that you recently graduated with a degree in finance and have just reported to work as an investment advisor at the brokerage firm of Balik and Kiefer Inc. One of the firm's clients is Michelle Dellatorre, a professional tennis player who has just come to the United States from Chile. Dellatorre is a highly ranked tennis player who would like to start a company to produce and market apparel that she designs. She also expects to invest substantial amounts of money through Balik and Kiefer. Dellatorre is also very bright, and, therefore, she would like to understand, in general terms, what will happen to her money. Your boss has developed the following set of questions which you must ask and answer to explain the financial system to Dellatorre.

Required:

- a) Discuss why is corporate finance important to all managers (5 Marks)
- b) Describe the organizational forms a company might have as it evolves from a start-up to a major corporation. List the advantages and disadvantages of each form. (5 Marks)
- c) Is stock price maximization good or bad for society? (5 Marks)
- d) Define financial assets, and describe some financial instruments. (5 Marks)
- e) What do we call the price that a borrower must pay for debt capital? What is the price of equity capital? What are the four most fundamental factors that affect the cost of money, or the general level of interest rates, in the economy? (5 Marks)
- f) Suppose most investors expect the inflation rate to be 5 percent next year, 6 percent the following year, and 8 percent thereafter. The real risk-free rate is 3 percent. The maturity risk premium is zero for securities that mature in 1 year or less, 0.1 percent for 2-year securities, and then the MRP increases by 0.1 percent per year thereafter for 20 years, after which it is stable. What is the interest rate on 1-year, 10-year, and 20-year treasury securities? Draw a yield

curve with these data. What factors can explain why this constructed yield curve is upward sloping? **(5 Marks)**

QUESTION TWO

A) Assume that you are nearing graduation and that you have applied for a job with a local bank. As part of the bank's evaluation process, you have been asked to take an examination which covers several financial analysis techniques. The first section of the test addresses discounted cash flow analysis. See how you would do by answering the following questions.

(i) Draw time lines for (a) a \$100 lump sum cash flow at the end of year 2, (b) an ordinary annuity of \$100 per year for 3 years, and (c) an uneven cash flow stream of -\$50, \$100, \$75, and \$50 at the end of years 0 through 3. **(4 Marks)**

(ii) What is the future value of an initial \$100 after 3 years if it is invested in an account paying 10 percent annual interest? **(4 Marks)**

B) What is free cash flow? Why is it important? What are the five uses of FCF? **(4 Marks)**

C) What are investment returns? What is the return on an investment that costs \$1,000 and is sold after one year for \$1,100? **(3 Marks)**

QUESTION THREE

A) Why is the T-bill's return independent of the state of the economy? Do t-bills promise a completely risk-free return? **(4 Marks)**

B) What type of risk is measured by the standard deviation? **(2 Marks)**

- C) Should portfolio effects impact the way investors think about the riskiness of individual stocks? **(2 Marks)**
- D) How is market risk measured for individual securities? How are beta coefficients calculated? **(2 Marks)**
- E) What is capital budgeting? **(3 Marks)**
- F) What is the difference between independent and mutually exclusive projects? **(2 Marks)**

QUESTION FOUR

- A) Why are ratios useful? What are the five major categories of ratios? **(3 Marks)**
- B) What are some qualitative factors analysts should consider when evaluating a company's likely future financial performance? **(3 Marks)**
- C) Briefly explain how to forecast financial statements using the percent of sales approach. Be sure to explain how to forecast interest expenses. **(3 Marks)**
- D) Distinguish between a relaxed but rational working capital policy and a situation in which a firm simply has a lot of current assets because it is inefficient? **(2 Marks)**
- E) What informal remedies are available to firms in financial distress? In answering this question, define the following terms: (1) workout, (2) restructuring, (3) extension, (4) composition, (5) assignment, and (6) assignee (trustee). **(4 Marks)**