



MB – 117 A (R)

III Semester M.B.A Examination, July 2010
Elective – A : Finance
Course – 17A : CAPITAL INVESTMENT DECISIONS
(Repeater)

Time : 3 Hours

Max. Marks : 75

SECTION – A

1. Answer **any five** sub-questions. **Each** sub-question carries **2** marks. **(5×2=10)**
- a) Define IRR.
 - b) What are the incremental cash flows ?
 - c) What are sunk costs ?
 - d) What do you mean by time value of money ?
 - e) What is annuity due ?
 - f) Give the meaning of certainty equivalent.
 - g) What is discounted pay back period ?

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks. **(4×5=20)**

- 2. What are the reasons for conflict in ranking between NPV and IRR ?
- 3. What are the principles governing the estimation of cash flows ?
- 4. What is pay back period ? What are its merits and demerits ?
- 5. How do you account for inflation while estimating cash flows ?
- 6. Calculate rates of return for the following cash flows :

0	1	2	3
(5000)	5,000	4,000	(1000)

P.T.O.



7. The estimated cash flows and certainty equivalents for project X and project Y are as follows.

Project X

Year	Cash flow	C.E
0.	(60,000)	1.00
1.	40,000	0.90
2.	40,000	0.80
3.	50,000	0.70

Project Y

Year	Cash flow	C.E
0.	(80,000)	1.00
1.	56,000	0.90
2.	52,000	0.80
3.	58,000	0.70

Which project should be accepted, if risk free discount rate is 6% ?

SECTION – C

Answer **any three** questions. **Each** question carries **10** marks.

(3×10=30)

8. Discuss the various capital budgeting evaluation techniques and the rationale for their use.
9. What is risk analysis ? Compare and contrast sensitivity scenario analysis.
10. Discuss the rationale underlying the mean-variance hypothesis proposed by Markowitz.



11. The NPV of a capital project is normally distributed random number with a mean of Rs. 10,000 and standard deviation of Rs. 20,000. Determine the probability of
- a) NPV being more than zero.
 - b) NPV being less than 1,000.
 - c) NPV being some value between 5,000 and 10,000.
12. From the following information about two capital projects X and Y, calculate expected NPV and Standard deviation of NPV.

	X		Y
NPV	Probability	NPV	Probability
(3,000)	0.10	(4,000)	0.20
5,000	0.20	3,000	0.40
10,000	0.40	8,000	0.30
7,000	0.30	10,000	0.10

SECTION – D

13. Compulsory Case (**Compulsory**) (1×15=15)

X Ltd. is contemplating the purchase of a new equipment which cost Rs. 10 lakhs. It requires another Rs. 2 lakhs for its transportation and installation. The machine requires an additional investment in net working capital to the extent of Rs. 3 lakhs. The equipment has a useful life of 5 years, after which it is expected to realize Rs. 2 lakhs. Straight line depreciation method is followed.

The machine is expected to reduce labour cost by Rs. 3,00,000 annually. If the required rate of returns is 15% and tax rate 40%, should the new equipment be purchased ?
