



University of Kelaniya - Sri Lanka
Centre for Open and Distance Learning

Faculty of Commerce and Management Studies

Bachelor of Business Management (General) Degree



Year III Examination (External) – 2008

BMGT 33065 – Business Finance

No of questions – 05

Time: 03 Hours

Answer all questions

01. i) “What do you understand by Business Finance. Explain the role of financial manager and show the inter-relationship between the different departments organization.
(06 Marks)
- ii. Explain the assumptions and objectives of the corporate wealth maximization model and share holder wealth maximization model.
(06 Marks)
- iii. Conglomerates are firms that have diversified into unrelated fields. How would a policy of conglomeration be viewed by the shareholder wealth maximization model compared to the corporate wealth maximization model?
(08 Marks)
(Total Marks 20)
02. i. “A Rupee today is more valuable than a year hence”, do you agree? Justify your answer.
(02 Marks)
- ii. You want to begin savings for your higher education and you estimate that it will need Rs.150, 000 in 17 years. If you feel confident that you can earn 8% per year, how much do you need to invest today?
(03 Marks)
- iii. You have given the following investment choices:
- Invest Rs.500 today and receive Rs.600 in 5 years. The investment is considered low risk.
 - Invest the Rs.500 in a bank account @ 4%.
- Which investment should you choose? Justify your answer.
(04 Marks)
- iv. You are considering two investment opportunities; first opportunity will pay you Rs.1000 at the end of each year for 12 years. Second opportunity will pay you Rs.1000 at the beginning of each year for 12 years. Both opportunities pay an

interest of 8%. Do you select second opportunity for your investment? Explain your answer.

(06 Marks)

- v. Assume that you have purchased common stocks of a firm. You expect the firm to pay annual dividends of Rs.2.00, Rs.2.25, Rs.3.00, and Rs.3.10 in each of the next four years at the end of each year. What is the present value of future dividends if you require an annual rate of return of 20%?

(05 Marks)

(Total Marks 20)

03. i. Differentiate between “project’s cost of capital” and “firm’s cost of capital”
(02 Marks)

- ii. “Market-value weights are theoretically superior to book-value weights in calculating Weighted Average Cost of Capital (WACC)”, do you agree? Comment

(04 Marks)

- iii. Chapra Manufactures has the following capital structure,

(Rs. In millions)

| | |
|--|-----------|
| Equity capital (1 million at par) | 10 |
| 12% preference capital (10000 at par) | 1 |
| Retained earnings | 12 |
| 14% non-convertible debentures (70000 debentures at par) | 7 |
| 14% term loan | 10 |
| Total | 40 |

Market price per equity share is Rs.25. The next expected Dividend per share is Rs.2 and the DPS is expected to grow at a constant rate of 8%. The preference shares are redeemable after 7 years at par and are currently quoted at Rs.75 per share on the Stock Exchange. The debentures are redeemable after 6 years at par and their current market quotation is Rs.90 per share. The tax rate applicable to the firm is 40%. Calculate the weighted average cost of capital.

(14 Marks)

(Total Marks 20)

04. i. What do you mean by “Stock Market efficiency?”
(03 Marks)

- ii. “It is natural to think that market is not efficient”, comment
(04 Marks)

- iii. You have given following research findings relating to Colombo Stock Exchange (CSE)

- price changes (returns) are uncorrelated
- future prices cannot be predicted using information contained in past prices
- technical trading rules are not profitable

With reference to above research findings identify the level of efficiency of CSE, justify your answer.

(06 Marks)

- iv. Discuss the relationship between “weak-form efficiency & Technical analysis” and “Semi strong-form efficiency & Fundamental analysis”.

(07 Marks)

(Total Marks 20)

05. Write short notes

- i. Risk diversification
- ii. Equity capital and Debt capital
- iii. Dividend policy

(Total Marks 20)