

Bangladesh Open University
BBA Program
Semester: 221 (3rd Level)

Course Title: Fundamentals of Business Finance

Due on: 24 May, 2024

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- Fill-in the cover page of your assignment with care.
- Enclose the photocopy of your ID Card with the assignment (next to the cover page).
- Don't make spiral binding. Instead, make soft binding.
- Submit the assignment to the respective course tutor and ensure his/her signature on your Assignment Acknowledgement Form (see page#3 of Semester Calendar).

Questions

1. (a) What is finance? Explain how finance affects the lives of everyone and every organization.
 (b) What is the primary economic principle used in finance? What are the two primary activities of the financial manager that are related to the firm's balance sheet? Explain.
 (c) What three basic reasons is profit maximization inconsistent with wealth maximization?

2. (a) What role do financial markets play in our economy? What are primary and secondary markets? What relationship exists between financial institutions and financial markets?
 (b) What is the capital market? What are the primary securities traded in it?
 (c) What is difference between future value and present value? Which approach is generally preferred by financial managers? Why?

3. (a) What is the difference between an ordinary annuity and an annuity due? Which always has greater future value and present value for identical annuities and interest rates? Why?
 (b) You have \$1,500 to invest today at 7% interest compounded annually.
 - a. Find how much you will have accumulated in the account at the end of (i) 3 years, (ii) 6 years, and (iii) 9 years
 - b. Use your findings in part a to calculate the amount of interest earned in (i) the first 3 years (years 1 to 3), (ii) the second 3 years (years 4 to 6), and (iii) the third 3 years (years 7 to 9).
 - c. Compare and contrast your findings in part b .Explain why the amount of interest earned increases in each succeeding 3-year period.

4. (a) You just won a lottery that promises to pay you \$1,000,000 exactly 10 years from today. Because the \$1,000,000 payment is guaranteed by the state in which you live, opportunities exist to sell the claim today for an immediate single cash payment.
 - a. What is the least you will sell your claim for if you can earn the following rates of return on similar-risk investments during the 10-year period? (i) 6% (ii) 9% (iii) 12%

- b. Rework part a under the assumption that the \$1,000,000 payment will be received in 15 rather than 10 years.
 - c. On the basis of your findings in parts a and b, discuss the effect of both the size of the rate of return and the time until receipt of payment on the present value of a future sum.
- (b) Marian Kirk wishes to select the better of two 10-year annuities, C and D. Annuity C is an ordinary annuity of \$2,500 per year for 10 years. Annuity D is an annuity due of \$2,200 per year for 10 years.
- a. Find the future value of both annuities at the end of year 10, assuming that Marian can earn (i) 10% annual interest and (ii) 20% annual interest.
 - b. Use your findings in part a to indicate which annuity has the greater future value at the end of year 10 for both the (i) 10% and (ii) 20% interest rates.
 - c. Find the present value of both annuities, assuming that Marian can earn (i) 10% annual interest and (ii) 20% annual interest.
 - d. Use your findings in part c to indicate which annuity has the greater present value for both (i) 10% and (ii) 20% interest rates.
 - e. Briefly compare, contrast, and explain any differences between your findings using the 10% and 20% interest rates in parts b and d.

Bangladesh Open University

BBA Program

Semester: 221 (3rd Level)

Course Title: Fundamentals of Business Finance

Due on: 12 July, 2024

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- Fill-in the cover page of your assignment with care.
- Enclose the photocopy of your ID Card with the assignment (next to the cover page).
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- Submit the assignment to the respective course tutor and ensure his/her signature on your Assignment Acknowledgement Form (see page#3 of Semester Calendar).

Questions

1. (a) What is risk in the context of financial decision making?
- (b) Define return, and describe how to find the rate of return on an investment.
- (c) When is the coefficient of variation preferred over the standard deviation for comparing asset risk?
- (d) Greengage, Inc., a successful nursery, is considering several expansion projects. All of the alternatives promise to produce an acceptable return. The owners are extremely risk-averse; therefore, they will choose the least risky of the alternatives. Data on four possible projects follow.

Project	Expected return	Range	Standard deviation
A	12.0%	0.40	0.29
B	12.5	0.50	0.32
C	13.0	0.60	0.35
D	12.8	0.45	0.30

- a. Which project is least risky, judging on the basis of range?
 - b. Which project has the lowest standard deviation? Explain why standard deviation is not an appropriate measure of risk for purposes of this comparison.
 - c. Calculate the coefficient of variation for each project. Which project will Greengage's owners choose? Explain why this may be the best measure of risk for comparing this set of opportunities.
2. (a) Pecos Manufacturing has just issued a 15-year, 12% coupon interest rate, \$1,000-par bond that pays interest annually. The required return is currently 14%, and the company is certain it will remain at 14% until the bond matures in 15 years. Assuming that the required return does remain at 14% until maturity, find the value of the bond with (i) 15 years, (ii) 12 years, (iii) 9 years, (iv) 6 years, (v) 3 years, and (6) 1 year to maturity.
 - (b) The Salem Company bond currently sells for \$955, has a 12% coupon interest rate and a \$1,000 par value, pays interest annually, and has 15 years to maturity.
 - (i) Calculate the yield to maturity (YTM) on this bond.

- (ii) Explain the relationship that exists between the coupon interest rate and yield to maturity and the par value and market value of a bond.
- (c) Kelsey Drums, Inc., is a well-established supplier of fine percussion instruments to orchestras all over the United States. The company's class A common stock has paid a dividend of \$5.00 per share per year for the last 15 years. Management expects to continue to pay at that rate for the foreseeable future. Sally Talbot purchased 100 shares of Kelsey class A common 10 years ago at a time when the required rate of return for the stock was 16%. She wants to sell her shares today. The current required rate of return for the stock is 12%. How much capital gain or loss will she have on her shares?
- (d) Lawrence Industries' most recent annual dividend was \$1.80 per share (D0 \$1.80), and the firm's required return is 11%. Find the market value of Lawrence's shares when:
 - i. Dividends are expected to grow at 8% annually for 3 years, followed by a 5% constant annual growth rate in years 4 to infinity.
 - ii. Dividends are expected to grow at 8% annually for 3 years, followed by a 0% constant annual growth rate in years 4 to infinity.
 - iii. Dividends are expected to grow at 8% annually for 3 years, followed by a 10% constant annual growth rate in years 4 to infinity
- 3. (a) Why do we distinguish between permanent and variable working capital?
(b) What is the difference between the firm's operating cycle and its cash conversion cycle?
(c) Efficient cash management will aim at maximizing the cash inflows and slowing cash outflows". Discuss.
(d) Why is inventory management important? What is meant by the ABC Inventory Control System? On what key promise is this system based? What are its limitations?
(e) Who do you mean by factoring? Explain the benefits of factoring. Why are the risks involved in international credit management more complex than those associated are true or false with purely domestic credit sales?