

Student: _____
Date: _____
Time: _____

Instructor: Yue Liu
Course: FIN320_Dept_spring2015
Book: Custom MFL for California State
University Fullerton (320)

Assignment: Sample Valuation Exam

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1. A risk-free, zero-coupon bond with a face value of \$5,000 has 20 years to maturity. If the YTM is 6.1%, which of the following would be closest to the price this bond will trade at?
- ☐ A. \$1,836
- ☐ B. \$2,448
- ☐ C. \$2,142
- ☐ D. \$1,530
-
2. You are interested in purchasing a new automobile that costs \$39,000. The dealership offers you a special financing rate of 12% APR (1%) per month for 60 months. Assuming that you do not make a down payment on the auto and you take the dealer's financing deal, then your monthly car payments would be closest to:
- ☐ A. \$694
- ☐ B. \$1,215
- ☐ C. \$1,388
- ☐ D. \$868
-
3. Dan buys a property for \$200,000. He is offered a 25-year loan by the bank, at an interest rate of 8% per year. What is the annual loan payment Dan must make?
- ☐ A. \$22,482.91
- ☐ B. \$26,230.06
- ☐ C. \$29,977.22
- ☐ D. \$18,735.76
-
4. NoGrowth Industries presently pays an annual dividend of \$1.50 per share and it is expected that these dividend payments will continue indefinitely. If NoGrowth's equity cost of capital is 10%, then the value of a share of NoGrowth's stock is closest to:
- ☐ A. \$18.00
- ☐ B. \$16.50
- ☐ C. \$12.00
- ☐ D. \$15.00
-

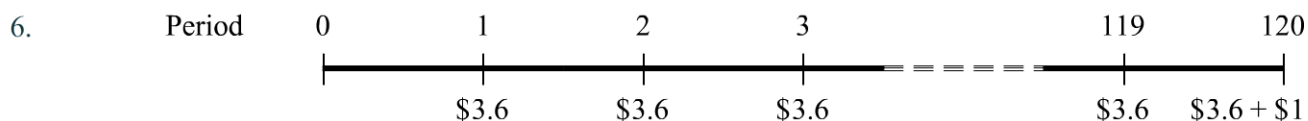
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5. How much will the coupon payments be of a 15-year \$10,000 bond with a 5% coupon rate and semiannual payments?

- ☐ A. \$500
☐ B. \$83
☐ C. \$250
☐ D. \$1,000



A corporation issues a bond that generates the above cash flows. If the periods shown are 1 mo which of the following best describes that bond?

- ☐ A. a 10-year bond with a notional value of \$1,000 and a coupon rate of 1.075% paid annual
☐ B. a 10-year bond with a notional value of \$1,000 and a coupon rate of 4.3% paid monthly.
☐ C. a 40-year bond with a notional value of \$1,000 and a coupon rate of 2.150% paid semiannually.
☐ D. a 120-year bond with a notional value of \$1,000 and a coupon rate of 4.3% paid quarterly

7. Gremlin Industries will pay a dividend of \$1.80 per share this year. It is expected that this dividend will grow by 6% per year each year in the future. The current price of Gremlin's stock is \$22.40 per share. What is Gremlin's equity cost of capital?

- ☐ A. 14%
☐ B. 13%
☐ C. 18%
☐ D. 16%

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8. You are saving money to buy a car. If you save \$350 per month starting one month from now at an interest rate of 9%, how much will you be able to spend on the car after saving for 4 years?
-
- ☐ A. \$24,159
☐ B. \$12,079
☐ C. \$20,132
☐ D. \$28,185
-
9. What is the yield to maturity of a eight-year, \$10,000 bond with a 5.5% coupon rate and semiannual coupons if this bond is currently trading for a price of \$9,512?
-
- ☐ A. 8.8%
☐ B. 3.14%
☐ C. 7.54%
☐ D. 6.29%
-
10. A company has stock which costs \$43.50 per share and pays a dividend of \$2.40 per share this year. The company's cost of equity is 12%. What is the expected annual growth rate of the company's dividends?
-
- ☐ A. 12.96%
☐ B. 25.92%
☐ C. 6.48%
☐ D. 19.44%
-
11. Clarissa wants to fund a growing perpetuity that will pay \$9,000 per year to a local museum, starting next year. She wants the annual amount paid to the museum to grow by 5% per year. Given that the interest rate is 9%, how much does she need to fund this perpetuity?
-
- ☐ A. \$225,000.00
☐ B. \$270,000.00
☐ C. \$180,000.00
☐ D. \$112,500.00
-

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12. A lender lends \$10,100, which is to be repaid in annual payments of \$2,010 for 6 years. Which of the following shows the timeline of the loan from the lender's perspective?

- ☐ A.

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
– \$10,100	\$2,010	\$4,010	\$6,010	\$8,010	\$10,010	\$12,010
- ☐ B.

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
– \$10,100	\$2,010	\$2,010	\$2,010	\$2,010	\$2,010	\$2,010
- ☐ C.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
– \$10,100	\$2,010	\$2,010	\$2,010	\$2,010	\$2,010
- ☐ D.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
0	\$2,010	\$2,010	\$2,010	\$2,010	\$2,010

13. If \$10,000 is invested in a certain business at the start of the year, the investor will receive \$3,000 at the end of each of the next four years. What is the present value of this business opportunity if the interest rate is 5% per year?

- ☐ A. \$638
- ☐ B. \$319
- ☐ C. \$1,021
- ☐ D. \$765

14. A stock is expected to pay \$3.20 per share every year indefinitely and the equity cost of capital for the company is 10%. What price would an investor be expected to pay per share next year?

- ☐ A. \$32.00
- ☐ B. \$8.00
- ☐ C. \$16.00
- ☐ D. \$24.00

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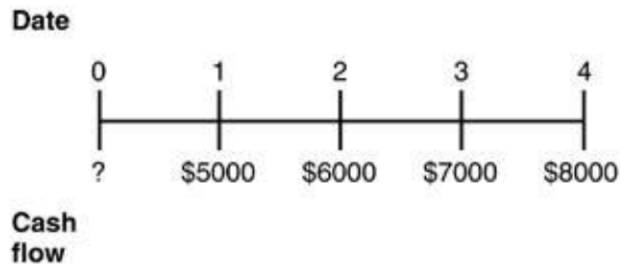
15. An annuity is set up that will pay \$1,200 per year for nine years. What is the present value (PV) of this annuity given that the discount rate is 4%?
-
- ☐ A. \$10,706
- ☐ B. \$8,922
- ☐ C. \$12,491
- ☐ D. \$5,353
-
16. What is the present value (PV) of \$200,000 received six years from now, assuming the interest rate is 8% per year?
-
- ☐ A. \$126,034
- ☐ B. \$220,559
- ☐ C. \$120,000
- ☐ D. \$157,542
-
17. What must be the price of a \$5,000 bond with a 6.9% coupon rate, semiannual coupons, and eight years to maturity if it has a yield to maturity of 10% APR?
-
- ☐ A. \$3,328
- ☐ B. \$4,160
- ☐ C. \$4,992
- ☐ D. \$5,824
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18. Consider the following timeline detailing a stream of cash flows:



If the current market rate of interest is 8%, then the present value (PV) of this stream of cash flows is closest to:

- ☐ A. \$25,453
- ☐ B. \$33,938
- ☐ C. \$21,211
- ☐ D. \$10,606
-
19. What is the future value (FV) of \$50,000 in thirty years, assuming the interest rate is 5% per year?
- ☐ A. \$194,487
- ☐ B. \$183,683
- ☐ C. \$216,097
- ☐ D. \$32,500
-
20. What is the coupon rate of a ten-year, \$10,000 bond with semiannual coupons and a price of \$7,821.35, if it has a yield to maturity of 7.9%?
- ☐ A. 6.591%
- ☐ B. 3.766%
- ☐ C. 4.708%
- ☐ D. 5.65%

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21. Von Bora Corporation (VBC) is expected to pay a \$4.00 dividend at the end of this year. If you expect VBC's dividend to grow by 4% per year forever and VBC's equity cost of capital is 10%, then the value of a share of VBS stock is closest to:
-
- ☐ A. \$40.00
☐ B. \$66.67
☐ C. \$26.67
☐ D. \$28.57
-
22. If \$15,000 is invested at 10% per year, in approximately how many years will the investment double?
-
- ☐ A. 11 years
☐ B. 7.3 years
☐ C. 14.6 years
☐ D. 8.4 years
-
23. Sara wants to have \$600,000 in her savings account when she retires. How much must she put in the account now, if the account pays a fixed interest rate of 9%, to ensure that she has \$600,000 in 25 years time?
-
- ☐ A. \$80,531
☐ B. \$125,246
☐ C. \$97,413
☐ D. \$69,581
-
24. Jumbuck Exploration has a current stock price of \$2.55 and is expected to sell for \$2.68 in one year's time, immediately after it pays a dividend of \$0.34. Which of the following is closest to Jumbuck Exploration's equity cost of capital?
-
- ☐ A. 9.22%
☐ B. 23.04%
☐ C. 18.43%
☐ D. 11.06%
-

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25. A risk-free, zero-coupon bond with a \$10,000 face value has 20 years to maturity. The bond currently trades at \$8,600. What is the yield to maturity of this bond?

- ☐ A. 57%
- ☐ B. 0.757%
- ☐ C. 86%
- ☐ D. 0.379%

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1. D

2. D

3. D

4. D

5. C

6. B

7. A

8. C

9. D

10. C

11. A

12. B

13. A

14. A

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15. B

16. A

17. B

18. C

19. C

20. C

21. B

22. B

23. D

24. C

25. B