

Student:

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Group I		
Question	T	F
1		X
2	X	
3		X
4	X	
5		X
6		X
7	X	
8		X
9	X	
10	X	
11		X
12		X
13		X
14	X	
15		X

Group II				
Question	a)	b)	c)	d)
1			X	
2			X	
3		X		
4			X	
5				X
6			X	
7			X	
8		X		
9		X		
10			X	
11				X
12		X		
13	X			
14		X		
15		X		

### Group I

**Mark in the answer grid on page 1 whether each statement is true or false.**

1. A company's shareholders face less risk than its debtholders.
2. Credit granting processes should always include a debtor's credit assessment, which includes, among others, the analysis of the company's economic and financial ratios.
3. The principle used to determine the current price of a security consists on estimating the cash flows expected to be generated in the future by this security, followed by the calculation of their future value.
4. All else constant, the interest earned on a deposit with simple interest is smaller than or equal to the amount on interest earned on a deposit with compounded interest.
5. Usually agents are risk averse, which means they are not willing to accept risk in their investments
6. The investment by a European resident in American Treasury Bonds is considered a risk free investment as those securities are rated AAA, the best possible credit assessment rating.
7. An investment fund is a financial instruments that result from raising funds from numerous investors, which constitute an autonomous pool of assets, managed by specialists who invest it in securities or other assets
8. The concept of time value of money refers to the fact that the resources used by companies to control its cash holdings should be accounted as expenses by companies.
9. The difference between the gross interest rate and the net interest rate is the effect of taxes.
10. The main advantage of using common size financial statements is that they allow to easily compare companies with very different sizes.
11. A zero-coupon bond is a bond that provides no return to its holders.
12. Options and linked bank deposits are very similar financial products as they both depend on the value of an underlying asset.
13. The value of assets already owned by the company and that are currently not being used should not be considered when analyzing investment projects as they do not represent an incremental investment to be done by the company.
14. When analyzing several mutually exclusive investment projects, the use of the internal rate of return as decision method may lead to a different decision than the use of the net present value.
15. The use of debt as a source of financing by companies always increases the value of that company.

## Group II

**Mark in the grid on page 1 the answer that you think is right for each question. If you identify more than one right answer, select the most comprehensive one.**

1. Which of the following applies to the owners' equity of a company?
  - a. Have a defined maturity date
  - b. The company guarantees a return (dividend) to its holders
  - c. Include, among others, the profits retained by the company
  - d. Represents the cash available for the company to use in the next 12 months
  
2. A company is facing a nonrecurring cash need due to the payment of vacation subsidies to its employees that will happen next week. What should the company do to solve this situation?
  - a. New financing through equity, i.e. issuance and sale of new shares
  - b. Contracting a 10 year bank loan
  - c. Use a line of credit
  - d. Postpone the payment of amounts to Social Security which are due tomorrow
  
3. In a capital lease:
  - a. The company that uses the asset (lessee) has legal ownership of the leased asset
  - b. All responsibilities resulting from the use of the asset belong to the lessee
  - c. The lessee's need for the asset is usually temporary
  - d. All the above
  
4. Complete the following statement: "Factoring with recourse presents..."
  - a. more risk for the company being financed and, thus, is more expensive. "
  - b. less risk for the company being financed and, thus, is more expensive. "
  - c. more risk for the company being financed and, thus, is less expensive. "
  - d. less risk for the company being financed and, thus, is less expensive. "
  
5. What is the present value of a cash collection of 5 000 Euros that will occur two years from now, considering a discount rate of 1%?
  - a. 5 100,50 Euros
  - b. 5 000,00 Euros
  - c. 4 950,50 Euros
  - d. 4 901,48 Euros
  
6. To assess investment projects fully or partially financed with debt, companies shall:
  - a. Compute the adjusted net present value, by adding to the net present value computed assuming full equity financing the value created by debt
  - b. Use the cash flows assuming full equity financing and adapt the discount rate, using the WACC (weighted average cost of capital) instead of the full equity one
  - c. Both approaches are valid
  - d. None of the above

7. If an investor believes that a certain share will be priced at 25 Euros on 31/Dec/2019 he may be interested in buying today an European type option/warrant on that share with maturity date 31/Dec/2019 and an exercise price of:
  - a. 26 euros if it is a call option/warrant
  - b. 24 euros if it is a put option/warrant
  - c. 24 euros if it is a call option/warrant
  - d. None of the above
  
8. The dividend yield on shares is
  - a. The total return obtained by the shareholders
  - b. The return obtained by the shareholders due to the dividends paid by that share
  - c. The return obtained by the shareholders due to the change in the price of the shares between the moment of the purchase and the moment of the sale
  - d. None of the above
  
9. Forward interest rates are
  - a. interest rates contracted today for deposits that start today
  - b. interest rates contracted today for deposits that will start in the future
  - c. explicitly presented in the yield curve
  - d. not possible to exist in perfect markets
  
10. Which of the following statements is true for a 200 000 euro bank loan with constant installments?
  - a. The outstanding debt is always 200 000 euros
  - b. The total amount of each installment is decreasing over the lifetime of the loan
  - c. The amount of interest paid on each installment is decreasing over the lifetime of the loan
  - d. The reimbursement amount paid on each installment is decreasing over the lifetime of the loan.
  
11. The yield to maturity of a bond
  - a. Measures the return demanded by investors to buy that bond
  - b. Increases when the price of the bond decreases
  - c. Corresponds to the discount rate used to compute the price of the bond
  - d. All the above

12. The advantage of investing in diversified portfolios rather than in just one assets is
- Maximizing the expected return
  - Eliminating part of the risk thanks to the diversification effect
  - Eliminating part of the risk thanks to the compounding effect
  - None of the above

Consider the following financial information for 2017 and 2018 for a particular company to answer questions 13 to 15:

	31/Dec/2018	31/Dec/2017
Non current assets	430 000 €	350 000 €
Current assets	250 000 €	280 000 €
Non current liabilities	240 000 €	200 000 €
Current liabilities	160 000 €	180 000 €
Owners' equity	280 000 €	250 000 €
Number of shares issued	100 000	100 000
Sales	800 000 €	700 000 €
Net income	20 000 €	40 000 €
Price-to-Book Value [Share price / Book value of shares]	0,64	0,80

13. The company's liquidity situation, assessed by the current ratio [Current assets/Current liabilities]
- Is better in 2018 when compared to 2017
  - Is worse in 2018 when compared to 2017
  - Is the same in 2018 and 2017
  - Not possible to answer
14. The company's profitability, measured by the return on equity [Net income/Owners' Equity] and by the return on sales [Net income/Sales]
- Is better in 2018 when compared to 2017
  - Is worse in 2018 when compared to 2017
  - Is the same in 2018 and 2017
  - Not possible to answer as each ratio moved in a different direction
15. In 2018, the price of the company's shares:
- Increased when compared to 2017
  - Decreased when compared to 2017
  - Is the same as in 2017
  - Not possible to answer