

**MB 116 A**



**III Semester M.B.A. Examination, July 2010**  
**MANAGEMENT**  
**Course 16A : Investment Management**  
**Elective – A : Finance**  
**(Freshers)**

Time : 3 Hours

Max. Marks : 75

**SECTION – A**

1. Write short notes on **any five** of the following, **each** carries **2** marks : **(5×2=10)**
- Time value of money
  - Annuity
  - Terminal cash flow
  - Present value
  - IRR
  - Capital Rationing
  - ARR
  - COL.

**SECTION – B**

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

- Illustrate the computation of IRR.
- What are the contents of Capital Budgeting ?
- Explain the merits of NPV over ARR.
- Calculate the Net Present Value of an Annuity of Rs. 1,00,000 received for a period of 6 year at 10%. The initial investment is Rs. 4,00,000/-.
- Suppose you purchase of a consumer durable for Rs. 40,000 and wish to make payment in six annual installments what will be the equal annual installment if the sellers interest rate is 12%.
- Why are cash flows considered in evaluating investment projects ?

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**SECTION – C**

Answer **any three** questions. **Each** question carries **ten** marks. **(3×10=30)**

8. Explain the principles governing estimation of cash flows.
9. For an investment outlay of Rs. 1,00,000, the expected net cash flow is Rs. 34,432, Rs. 39,530, Rs. 39,359, and Rs. 32,219 over the next 4 years. Calculate the payback period.
10. If project A has an expected value of net present value of Rs. 200 and a standard deviation of Rs.400, it is more risky than project B whose expected value is Rs. 140 and standard deviation of Rs. 300 ? Explain.
11. Two mutually exclusive projects have projected cash flows as follows :

	End of the year (in. Rupees)				
	0	1	2	3	4
<b>Project -A</b>	2,000/-	1,000/-	1,000/-	1,000/-	1,000/-
<b>Project -B</b>	2,000/-	0	0	0	6,000/-

Determine the IRR for each project and NPV for each project at discount rates of 10 and 20 percent.

12. Explain the use of scenario analysis for evaluating a risky project.

**SECTION – D**

**Case Study (Compulsory) :** **15**

13. Two discrete probability distributions are given. Calculate the average cash flows and its risk.

PROJECT - A		PROJECT - B	
PROBABILITY	CASH FLOW (in Rs.)	PROBABILITY	CASH FLOW (in Rs.)
.20	2,000/-	.10	2,000/-
.30	4,000/-	.40	4,000/-
.30	6,000/-	.40	6,000/-
.20	8,000/-	.10	8,000/-