PGDM, 2013-15

Strategic Financial Management

DM-515/IB 504

Trimester – V, End-Term Examination: December 2014

Time Allowed: 2 Hrs 30 mins   Max Marks: 50

Sec A

(Answer any three questions out of five. Each question carries five marks)

1. 'Decision trees are a useful tool to evaluate the options inherent in a project' – Discuss.

2. Make a comparative study between Economic Value Added (EVA) and profit-based measures of performance.

3. Distinguish between 'reactive' and 'proactive' risk management systems.

4. 'Agency conflict may substantially impact the value of a firm' – Discuss.

5. Discuss the significance of Market Value Added (MVA) as a performance measurement tool.

Sec B

(Answer any two questions out of three. Each question carries ten marks)

6. 'Proponents of EVA^{TM} argue that profits calculated in accordance with financial reporting principles do not reflect the economic value generated by company' – Discuss this statement in the light of accounting adjustments required to compute EVA^{TM}.
(10 marks)

7. Project X estimated cash flows in terms of that year's (current year) prices and expected inflation rates for the coming five years are as under:

Year	Expected Inflation Rate	Cash Flow (Rs.)
0	-	-40000
1	9%	7000
2	10%	7000
3	9%	7000
4	9%	7000
5	10%	7000

Compute the inflation adjusted NPV of project X.

8. Write short notes on the following: (2.5 marks x 4)

a) Risk Blind Spot

b) Timing and Delay options

c) Miller-Orr Model

d) Activity based costing

Sec C

(Compulsory)

9.   Splice and sequence developed a new tool that accelerates the DNA sequencing of genomes. This advanced technology has great market potential while exhibiting high market uncertainty at the same time. The project launch cost is expected to be INR 300 million, with the same estimated DCF based payoff. The annual volatility factor is 30%, and the continuous annual risk-free rate for the next five years is 5%. If the company can wait for the five years before introducing the product into market, what is the real options value of this project? Calculate the real option value on the Black-Scholes, and binomial methods for comparison purpose.

(15 marks)