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QUESTION 1

A firm wishing to sell its well-known brand of men\\'s clothing in a certain foreign country redesigned the products because of the greater average size of consumers in that country. However, the firm retained the same basic advertising campaign. According to Keegan\\'s model of adaptation strategies, this firm has adopted a strategy of

A. Straight extension.

B. Product adaptation.

C. Forward invention.

D. Backward invention.

Correct Answer: B

Using a product adaptation strategy, a firm makes changes to the product for each market but not its promotion. This can reduce profit potential but may also provide a marketing advantage by taking into account local wants and needs.

QUESTION 2

Rex Company is considering an investment in a new plant which will entail an immediate capital expenditure of $4,000,000. The plant is to be depreciated on a straight-line basis over 10 years to zero salvage value. Operating income (before depreciation and taxes) is expected to be $800,000 per year over the 10-year life of the plant. The opportunity cost of capital is 14%. Assume that there are no taxes.What is the discounted payback period for the investment?

A. 5.5years.

B. 7.1 years.

C. 9.2 years.

D. 11.7years.

Correct Answer: C

The discounted payback period is the number of years needed to get the PV of the cash flows to equal the initial investment. At a 14% discount rate, this occurs at 9.2 years. The discounted payback period was calculated by dividing the initial investment of $4.000000 by the annual cash flow of $800000 giving a

5.000 Present Value of Annuity Factor at 14%, which equals approximately 9.2 years.

QUESTION 3

Maloney Company uses a 12% hurdle rate for all capital expenditures and has done the following analysis for four projects for the upcoming year Which projects should Maloney undertake during the upcoming year if it has only $12,000,000 of investment funds available?

	Project 1	Project 2	Project 3	Project 4
Initial outlay	$4,960,000	$5,440,000	$4,000,000	$5,960,000
Annual net cash inflows:				
Year 1	1,600,000	1,900,000	1,300,000	2,000,000
Year 2	1,900,000	2,500,000	1,400,000	2,700,000
Year 3	1,800,000	1,800,000	1,600,000	1,800,000
Year 4	1,600,000	1,200,000	800,000	1,300,000
Net present value	281,280	293,240	(75,960)	85,520
Profitability index	106%	105%	98%	101%
Internal rate of return	14%	15%	11%	13%

A. Projects 1 and 3.

B. Projects 1, 2, and 4.

C. Projects 1 and 4.

D. Projects 1 and 2.

Correct Answer: D

With only $12,000,000 available and each project costing $4,000,000 or more, no more than two projects can be undertaken. Accordingly, projects should be selected because they have the greatest NPVs and profitability lily indexes.

QUESTION 4

Siberian Ski Company recently expanded its manufacturing capacity, which will allow it to produce upto 15,000 pairs of cross country skis of the mountaineering model or the touring model. The Sales Department assures management that it can sell between 9,000 pairs and 13000 pairs of either product this year. Because the models are very similar, Siberian Ski will produce only one of the two models. The following information was compiled by the Accounting Department

Per-Unit (Pair) Data	Mountaineering	Touring
Selling price	$88.00	$80.00
Variable costs	52.80	52.80

Fixed costs will total $369,600 if the mountaineering model is produced but will be only $316,800 if the touring model is produced. Siberian Ski is subject to a 40% income tax rate.If the Siberian Ski Company Sales Department could guarantee the annual sale of 12,000 pairs of either model, Siberian Ski would

A. Produce 12,000 pairs of touring skis because they have a lowerfixed cost.

B. Be indifferent as to which model is sold because each model has the same variable cost per unit.

C. Produce 12,000 pairs of mountaineering skis because they have a lower breakeven point.

D. Produce 12,000 pairs of mountaineering skis because they are more profitable.

Correct Answer: D

QUESTION 5

The DCL Corporation is preparing to evaluate the capital expenditure proposals for the coming year.

Because the firm employs discounted cash flow methods of analyses. the cost of capital for the firm must

be estimated. The following information for DCL Corporation is provided.

Market price of common stock is $50 per share.

The dividend next year is expected to be $2.50 per share.

Expected growth in dividends is a constant 10%.

New bonds can be issued at face value with a 13% coupon rate.

The current capital structure of 40% long-term debt and 60% equity is considered to be optimal

Anticipated earnings to be retained in the coming year are $3 million.

The firm has a 40% marginal tax rate.

If the firm must assume a 10% flotation cost on new stock issuances. what is the cost of new common

stock?

A. 1611%.

B. 15.56%.

C. 15.05%.

D. 15.00%.

Correct Answer: B

The formula to determine the cost of retained earnings, with the additional flotation cost entered into the calculation, is Cost of new common stock = {D, + [P x (1 -- Flotation cost)]} + G Where: Di = next dividend Po = current price G = growth rate in dividends per share (but the model assumes that the dividend-payout ratio, retention rate, and therefore the EPS growth rate are constant). This yields a cost of new common stock of 15.56%. Cost of new common stock = {$2.50 ` [$50.00 x (1.0-- 0..1)] + 01 = ($2.50 + $45.00) + 01 = 0.0556 + 0.1 = 0.1556