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**Question Paper Code : 85562**

M.B.A. DEGREE EXAMINATION, FEBRUARY 2012.

Elective

DBA 1764 — STRATEGIC INVESTMENTS AND FINANCIAL DECISIONS

(Regulation 2007/2009)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Write a small note on the various types of disinvestments.
2. Briefly explain Certainty Equivalent method.
3. Define the term Capital rationing.
4. Define the term Portfolio risk.
5. Define operating risk.
6. Distinguish between Lease and Hire purchase.
7. What are the cash flow consequences associated with a financial merger?
8. Briefly explain the various assumptions of MM Hypothesis
9. Define financial distress.
10. Briefly explain the various issues involved in reconstruction.

PART B — (5 × 16 = 80 marks)

11. (a) Describe in depth the various methods of evaluating investment opportunities of a firm with their respective pros and cons and with illustrations.

Or

- (b) You are analyzing two mutually exclusive projects with the following cash flows.

| Years | Project A     | Project B     |
|-------|---------------|---------------|
| 0     | -Rs.40,00,000 | -Rs.40,00,000 |
| 1     | Rs.20,00,000  | Rs.10,00,000  |
| 2     | Rs.15,00,000  | Rs.15,00,000  |
| 3     | Rs.12,50,000  | Rs.17,00,000  |
| 4     | Rs.10,00,000  | Rs.24,00,000  |

- (i) Estimate the Net present value of each project, assuming a cost of capital of 10% Which is the better project?
- (ii) Estimate the IRR for each project. Which is the better project?
12. (a) Explain the various sources of Capital rationing. Also explain the project selection process under capital rationing with a suitable illustration.

Or

- (b) Explain in depth the importance of information and data bank in project selections by a firm.
13. (a) Define a lease. Explain the various types of leases with their respective suitability, pros and cons.

Or

- (b) Distinguish between a Merger and an acquisition. Explain their features, types and respective cash flow consequences associated with a financial merger.
14. (a) Describe in depth the various factors which influence the international capital structure of a firm.

Or

- (b) Write an in-depth note on the various theories of international capital structure. What are the consequences of Debt irrelevancy?
15. (a) Explain the various consequences of financial distress. What are the issues involved?

Or

- (b) Explain the term 'Bankruptcy'. How does a firm measure the cost of bankruptcy? What are the steps involved in bankruptcy?