The University of Nottingham

BUSINESS SCHOOL

A LEVEL 2 MODULE, AUTUMN SEMESTER 2014-2015

INTRODUCTION TO FINANCE

Time allowed ONE Hour THIRTY minutes

Candidates must NOT start writing their answers until told to do so

Answer ALL Questions in SECTION A

Section A consists of 17 Multiple Choice Questions (MCQ).

Use the special answer sheet provided to mark your answer. TWO marks are given for each correct answer. No marks and no penalty are given for an incorrect answer or failing to answer a particular question.

Answer TWO Questions in Section B.

Questions in Section B are worth 33 marks each.

Only silent, self contained calculators with a Single-Line Display or Dual-Line Display, as well as financial calculators, such as TI BA II Plus and TI BA II Plus Professional are permitted in this examination.

*Dictionaries are not allowed with one exception. Those whose first language is not English may use a standard translation dictionary to translate between that language and English provided that neither language is the subject of this examination**. Subject specific translation dictionaries are not permitted.***

No electronic devices capable of storing and retrieving text, including electronic dictionaries, may be used.

DO NOT turn examination paper over until instructed to do so

ADDITIONAL MATERIAL: Multiple Choice Answer Sheet

INFORMATION FOR INVIGILATORS:
This examination paper needs to be collected in at the end of the examination

SECTION A (34%)

ALL questions in this section are compulsory
This section consists of 17 Multiple Choice Questions (MCQ).
Use the special answer sheet provided to mark your answer.
2 marks are given for each correct answer. No marks and no penalty are given for an incorrect answer or failing to answer a particular question.

SECTION B (66%)

Answer any TWO questions from this section. Each question is worth 33 marks.

18. Explain the similarities and differences among an ordinary annuity, an annuity due, and a perpetuity.

19. List the various determinants of bond yields and discuss the type of situation that would cause each determinant to increase the yield on a bond.

20. The present value of the benefits of a particular investment happens to equal the initial cost of that investment at the required rate of 14 percent. What is the value of the investment's internal rate of return, its net present value, and its profitability index? Explain your answers.

21. Assume a firm follows a policy of using its weighted average cost of capital as the required return for all of its proposed projects. Evaluate this policy. How will this policy affect the overall risk level of the firm over time?