You are required to determine the optimal debt-equity mix for the company by calculating composite cost of capital.

18. The following information is available in respect of the rate of return on investments (r), the capitalization rate (k_e) and earnings per share (E) of Hypothetical Limited.

(a) r = 12% (b) r = 11% (c) r = 10%

k_e = 11%; E = Rs.20

Determine the value of its shares, assuming the following

	D/P ratio (1-b)	Retention ratio (b)
a)	10%	90%
b)	40%	60%
c)	70%	30%

19. Explain the advantages and disadvantages of future contracts.

20. Discuss the objectives of new international economic order.

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(For candidates admitted from 2015–2016 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2023.

Financial Management

GLOBAL FINANCE AND FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

PART A — (10 × 2 = 20)

Answer ALL questions.

1. What are the goals of financial management?
2. What is inflation?
3. What do you understand by capital structure?
4. How do you calculate net operating income?
5. Define residual payment.
6. What do you mean by dividend?
7. What is the Euro currency market?
8. Which is more profitable futures or options?
9. What are the effects of debt crisis?
10. What are the negative effects of globalization?

PART B — (5 × 7 = 35)

Answer ALL questions.

11. (a) Explain the relationship between financial management and other areas of management.

Or

(b) State the types of exchange rates.

12. (a) Two firms A and B are identical in all respects except the degree of leverage. Firm A has 6% debt of Rs.3 lakhs, while firm B has no debt. Both the firms earning an EBT of Rs.1,20,000 each. The equity capitalization rate is 10% and the corporate tax is 60%. Compute the market value of the two firms.

Or

(b) Bring down the different patterns of capital structure.

13. (a) What are the different types of dividend policies?

Or

(b) The Agro-Chemicals company belongs to a risk class for which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if a dividend is not declared? What will it be if one is? Answer these on the basis of Modigliani and Miller and assume no taxes.

14. (a) State the advantages of futures over options.

Or

(b) Bring down the characteristics of Euro market.

15. (a) What is globalization? State its importance.

Or

(b) Bring down the arguments in favour of free capital movement.

PART C — (3 × 15 = 45)

Answer any THREE questions.

16. Explain the advantages and disadvantages of global depository receipt.

17. In considering the most desirable capital structure for a company, the following estimates of the cost of debt and equity capital (after tax) has been made at various levels of debt-equity mix:

Debt as percentage of total capital employed	Cost of Debt (%)	Cost of Equity (%)
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0