

**FEBRUARY 2021**

**SS 422/CAA02**

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Time : Three hours

Maximum : 100 marks

Answer any FIVE questions choosing not more than  
THREE in each Part.

(5 × 20 = 100)

**PART — A**

1. Explain the role of SEBI in Indian Capital Market.
2. “Risk analysis of capital investment is one of the most complex, controversial and slippery areas in finance” - Comment.
3. Bring out the merits and demerits of leasing.
4. How are mergers financed? Analyze the impact of the various modes of finance on company's EPS.
5. Explain the relationship between inflation rates and exchange rates.

**PART — B**

6. Distinguish between corporate objectives and functions objectives.

7. A limited company has the following capital structure:

Equity share capital (2,00,000) shares  
Rs. 40,00,000

6% Preference shares Rs. 10,00,000

8% Debentures Rs. 30,00,000

The market price of the company's equity share is Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the following:

- (a) A weighted average cost of capital based on existing capital structure.
- (b) The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of share will fall to Rs. 15 per share.
- (c) The cost of capital if in (b) above, growth rate increases to 10%.

8. Explain the nature and factors which influence the dividend policy of a firm.
  9. Explain the relationship between single - Index model and the Markowitz model of portfolio theory.
  10. Explain the various international capital budgeting techniques.
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