

SampleMT1

Student: _____

- Find the present value of \$5,325 to be received in one period if the rate is 6.5%.

A. \$5,000.00
B. \$5,023.58
C. \$5,644.50
D. \$5,671.13
E. None of the above.
- If you have a choice to earn simple interest on \$10,000 for three years at 8% or annually compound interest at 7.5% for three years which one will pay more and by how much?

A. Simple interest by \$50.00
B. Compound interest by \$22.97
C. Compound interest by \$150.75
D. Compound interest by \$150.00
E. None of the above.
- What is the future value of the following cash flows at the end of year 3 if the interest rate is 7.25%? The cash flows occur at the end of each year.

<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
\$6,800	\$2,100	\$0

- A. \$8,758.04
- B. \$8,806.39
- C. \$10,073.99
- D. \$10,314.00
- E. \$10,804.36

4. If the stated rate of interest is 12% and it is compounded monthly, what is the effective annual interest rate?
- A. 12.00%
 - B. 12.25%
 - C. 12.46%
 - D. 12.68%
 - E. 12.92%
5. The value of a 20 year zero-coupon bond when the market required rate of return of 9% (semiannual) is _____.
- A. \$171.93
 - B. \$178.43
 - C. \$318.38
 - D. \$414.64
 - E. None of the above.
6. An investment is acceptable if its IRR:
- A. is exactly equal to its net present value (NPV).
 - B. is exactly equal to zero.
 - C. is less than the required return.
 - D. exceeds the required return.
 - E. is exactly equal to 100%.
7. The payback period rule:
- A. discounts cash flows.
 - B. ignores initial cost.
 - C. always uses all possible cash flows in its calculation.
 - D. Both A and C.
 - E. None of the above.

8. Which of the following should be included in the analysis of a project?
- (I) sunk costs
 - (II) opportunity costs
 - (III) erosion costs
 - (IV) incremental costs
- A. I and II only
B. III and IV only
C. II and IV only
D. II, III, and IV only
E. I, II, and IV only
9. Ernie's Electrical is evaluating a project which will increase sales by \$50,000 and costs by \$30,000. The project will cost \$150,000 and be depreciated straight-line to a zero book value over the 10 year life of the project. The applicable tax rate is 34%. What is the operating cash flow for this project?
- A. \$3,300
B. \$5,000
C. \$8,300
D. \$13,300
E. \$18,300

SampleMT1 Key

1. Find the present value of \$5,325 to be received in one period if the rate is 6.5%.
- A \$5,000.00
 - b. \$5,023.58
 - c. \$5,644.50
 - d. \$5,671.13
 - e. None of the above.

Difficulty level: Easy
Ross - Chapter 04 #21
Topic: PRESENT VALUE – SINGLE SUM

2. If you have a choice to earn simple interest on \$10,000 for three years at 8% or annually compound interest at 7.5% for three years which one will pay more and by how much?
- a. Simple interest by \$50.00
 - B** Compound interest by \$22.97
 - c. Compound interest by \$150.75
 - d. Compound interest by \$150.00
 - e. None of the above.

Difficulty level: Easy
Ross - Chapter 04 #22
Topic: SIMPLE & COMPOUND INTEREST

3. What is the future value of the following cash flows at the end of year 3 if the interest rate is 7.25%? The cash flows occur at the end of each year.

<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
\$6,800	\$2,100	\$0

- a. \$8,758.04
- b. \$8,806.39
- C** \$10,073.99
- d. \$10,314.00
- e. \$10,804.36

Difficulty level: Medium

Ross - Chapter 04 #76

Topic: UNEVEN CASH FLOWS AND FUTURE VALUE

4. If the stated rate of interest is 12% and it is compounded monthly, what is the effective annual interest rate?

- a. 12.00%
- b. 12.25%
- c. 12.46%
- D** 12.68%
- e. 12.92%

Difficulty level: Medium

Ross - Chapter 04 #112

Topic: EAR

5. The value of a 20 year zero-coupon bond when the market required rate of return of 9% (semiannual) is _____.

- A** \$171.93
- b. \$178.43
- c. \$318.38
- d. \$414.64
- e. None of the above.

Difficulty level: Easy

Ross - Chapter 05 #40

Topic: ZERO COUPON BOND

6. An investment is acceptable if its IRR:
- a. is exactly equal to its net present value (NPV).
 - b. is exactly equal to zero.
 - c. is less than the required return.
 - D** exceeds the required return.
 - e. is exactly equal to 100%.

Difficulty level: Easy
Ross - Chapter 06 #10
Topic: INTERNAL RATE OF RETURN RULE

7. The payback period rule:
- a. discounts cash flows.
 - b. ignores initial cost.
 - c. always uses all possible cash flows in its calculation.
 - d. Both A and C.
 - E** None of the above.

Difficulty level: Easy
Ross - Chapter 06 #46
Topic: PAYBACK

8. Which of the following should be included in the analysis of a project?
- (I) sunk costs
 - (II) opportunity costs
 - (III) erosion costs
 - (IV) incremental costs
-
- a. I and II only
 - b. III and IV only
 - c. II and IV only
 - D** II, III, and IV only
 - e. I, II, and IV only

Difficulty level: Medium
Ross - Chapter 07 #19
Topic: TYPES OF COSTS

9. Ernie's Electrical is evaluating a project which will increase sales by \$50,000 and costs by \$30,000. The project will cost \$150,000 and be depreciated straight-line to a zero book value over the 10 year life of the project. The applicable tax rate is 34%. What is the operating cash flow for this project?
- a. \$3,300
 - b. \$5,000
 - c. \$8,300
 - d. \$13,300
 - E \$18,300**

$$\text{Tax} = .34 \times [\$50,000 - 30,000 - (\$150,000 / 10)] = \$1,700; \text{OCF} = \$50,000 - \$30,000 - \$1,700 = \$18,300$$

Difficulty level: Medium
Ross - Chapter 07 #48
Topic: OCF

SampleMT1 Summary

<i>Category</i>	<i># of Questions</i>
Difficulty level: Easy	5
Difficulty level: Medium	4
Ross - Chapter 04	4
Ross - Chapter 05	1
Ross - Chapter 06	2
Ross - Chapter 07	2
Topic: EAR	1
Topic: INTERNAL RATE OF RETURN RULE	1
Topic: OCF	1
Topic: PAYBACK	1
Topic: PRESENT VALUE – SINGLE SUM	1
Topic: SIMPLE & COMPOUND INTEREST	1
Topic: TYPES OF COSTS	1
Topic: UNEVEN CASH FLOWS AND FUTURE VALUE	1
Topic: ZERO COUPON BOND	1