

Roll No.

Total No. of Pages : 03

Total No. of Questions : 10

**MBA (Sem-2)**  
**CORPORATE FINANCE AND POLICY**

Subject Code : MBA206/21

M.Code : 92177

Date of Examination : 11-05-2024

Time : 3 Hrs.

Max. Marks : 60

**INSTRUCTIONS TO CANDIDATES :**

1. SECTION-A contains EIGHT questions carrying TWO marks each and students has to attempt ALL questions.
2. SECTION-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and student has to attempt any ONE question from each Subsection.
3. SECTION-C is COMPULSORY and consist of ONE Case Study carrying TWELVE marks.

**SECTION-A**

**1. Answer briefly :**

- a. What is EPS?
- b. What is Capital Rationing?
- c. What is Leverage?
- d. What is Risk Analysis?
- e. What is Business Risk?
- f. Define Cost of Equity.
- g. What is Payback period?
- h. What is Float?

## **SECTION-B**

### **UNIT-I**

2. Why financial management knowledge is important for a growing business in today's world.
3. Write notes on the following :
  - a) Concept of Valuation
  - b) Corporate Finance.

### **UNIT-II**

4. Explain the determinants of a capital structure.
5. Discuss EBIT/EPS Analysis in detail.

### **UNIT-III**

6. Discuss the concept of trading on equity.
7. What is Capital Budgeting? Discuss major techniques of analysis.

### **UNIT-IV**

8. Discuss the dividend decision in detail.
9. Discuss major factors affecting the working capital of a business firm in detail.

## SECTION-C

### 10. Read the following case study in detail and answer the questions :

Two types of error can arise when evaluating a credit decision. The Type I error is advancing credit to a lesser-quality credit (that is, a 'bad credit' that has mistakenly been classified as a 'good credit') and thereby incurring an unanticipated loss. The type II error arises from misclassifying a good credit as a bad credit and thereby forgoing an opportunity to earn profit. The different risks can be portrayed in terms of the actual credit quality (here simply called 'good' or 'bad' credit) versus the analysed credit quality. In practice, the credit analyst will devote more time to avoiding type I errors; that is, to assessing bad credits as good ones. The financial consequences of accepting bad risks that have mistakenly been classified as good ones are greater than if some good risks are mistakenly rejected. This is because the costs of extending credit in a situation where there is a credit event are far greater than the opportunity for profit forgone by refusing credit to the good risk. This is due to the uncertainties in loss recovery rates and the opportunity costs involved. That said, a credit evaluation model that habitually rejects high-quality good credits as bad means excessive opportunity losses from forgone business. Hence the probability of default of a particular kind of credit needs to be carefully factored into any analytic framework. If the analyst can correctly identify the credit quality of the counterparty, then steps may be taken to protect the lender. For instance, in the case of a financial institution that holds a loan, asset or instrument, or credit position with the counterparty, this may be closed out, insurance purchased, or the loan sold off to another (less perceptive) institution. For a supplier extending trade credit, a (high-risk) customer can be required to pay cash or provide suitable collateral to offset the credit risk.

#### *Questions:*

- a. Summarize the whole case from the perspective of risk management in your own words.
- b. Why Credit can be Good or bad? Discuss.
- c. As per the case, why the role of the credit analyst is difficult?
- d. Discuss Type I and II errors.

**NOTE : Disclosure of Identity by writing Mobile No. or Marking of passing request on any paper of Answer Sheet will lead to UMC against the Student.**