Unit 11 - Week 9

Course outline

How does an NPTEL online course work?

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Week 9

- Risk Analysis in Capital Budgeting - Part II
- Risk Analysis in Capital Budgeting - Part III
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- Risk Analysis in Capital Budgeting - Part VI
- Quiz : Assignment 9
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Assignment 9

The due date for submitting this assignment has passed.
As per our records you have not submitted this assignment.

Due on 2020-04-01, 23:59 IST.

1) Which of the following is done using probability distributions? *1 point*

- Break-even analysis
- Sensitivity analysis
- Scenario analysis
- Simulation analysis

No, the answer is incorrect.
Score: 0
Accepted Answers:
Simulation analysis

2) Evaluating the viability of a project by changing a set of variables together at a time is done in: *1 point*

- Sensitivity analysis
- Scenario analysis
- Break-even analysis
- Decision tree analysis

No, the answer is incorrect.
Score: 0
Accepted Answers:
Scenario analysis

3) If risk-adjusted discount rates are used to evaluate investments, that would be the least in the case of: *1 point*

- Investment in new lines
- Expansion investments
- Replacement investments
- Investment in related lines

No, the answer is incorrect.
Score: 0
Accepted Answers:
Replacement investments

4) The basic accounting break-even analysis: *1 point*

- Ignores the time value of money
- Is not a linear relationship
- Takes into consideration variations in unit variable costs
- Works well even when the product fix varies

No, the answer is incorrect.
Score: 0
Accepted Answers:
Ignores the time value of money

5) The investment proposal with the greatest relative risk would have: *1 point*

- the highest standard deviation of net present value.
- the highest coefficient of variation of net present value.
- the highest expected value of net present value.
- the lowest opportunity loss likelihood.

No, the answer is incorrect.
Score: 0
Accepted Answers:
the highest coefficient of variation of net present value.

6) In Certainty-equivalent approach, adjusted cash flows are discounted at: *1 point*

- Accounting Rate of Return
- Internal Rate of Return
- Hurdle Rate
- Risk-free Rate

No, the answer is incorrect.
Score: 0
Accepted Answers:
Risk-free Rate

7) A project costs Rs. 10 million today. Next year (year 1) the cash inflow will be either Rs. 10 million or Rs. 2 million with equal probability. If the year-1 cash inflow was Rs. 10 million, then the year-2 cash flow will also be Rs. 10 million. If the year-1 cash inflow was Rs. 2 million, then the year-2 cash flow will also be Rs. 2 million. If the firm can abandon the project only after year 1 for a known amount of Rs. 3 million at that time, what is the abandonment value if the appropriate discount rate is 5%? *1 point*

- Rs. 157,000
- Rs. 260,000
- Rs. 521,000
- Rs. 1,157,000

No, the answer is incorrect.
Score: 0
Accepted Answers:
Rs. 521,000

8) Shinestar, Inc., can invest in one of two mutually exclusive, one-year projects requiring equal initial outlays. The two proposals have the following discrete probability distributions of net cash inflows (in Rs.) for the first year: *1 point*

PROJECT A		PROJECT B	
PROBABILITY	CASH FLOW	PROBABILITY	CASH FLOW
0.20	2,000	0.10	2,000
0.30	4,000	0.40	4,000
0.30	6,000	0.40	6,000
0.20	8,000	0.10	8,000
1.00		1.00	

As an analyst, can you select the better proposal, assuming a risk-averse management?

- Project A
- Project B
- Both are equally good
- Can't Say

No, the answer is incorrect.
Score: 0
Accepted Answers:
Project B

9) Ustra Ltd. Is considering its new product with the following details: *0 points*

Initial capital cost	Rs. 400 Cr
Annual unit sales	Rs. 5 Cr
Selling price per unit	Rs. 100
Variable cost per unit	Rs. 50
Fixed costs per unit	Rs. 50 Cr
Discount rate	6%

What is the NPV of the project (Rs. In Cr)?

- 188.60
- 148.60
- 134.60
- None of these

No, the answer is incorrect.
Score: 0
Accepted Answers:
134.60

10) In the above question, what is the NPV of the project (Rs. In Cr) if the selling price per unit is reduced to Rs. 97.5 per unit? *0 points*

- 101.19
- 117.89
- 124.60
- None of these

No, the answer is incorrect.
Score: 0
Accepted Answers:
101.19

11) A firm has an investment proposal, requiring an outlay of Rs. 80,000. The investment proposal is expected to have two years' economic life with no salvage value. In year 1, there is a 0.4 probability that cash inflow after tax will be Rs. 50,000 and 0.6 probability that cash inflow after tax will be Rs. 60,000. The probability assigned to cash inflow after tax for the year 2 is as follows: *1 point*

Year	Cash Flows (Rs.)	Probability	Cash Flows (Rs.)	Probability
1	50,000	0.4	60,000	0.6
2				
	24,000	0.2	40,000	0.4
	32,000	0.3	50,000	0.5
	44,000	0.5	60,000	0.1

The firm uses a 10% discount rate for this type of investment. As per the decision tree approach, what is the NPV for the proposed investment project (in Rs.) if the worst outcome is realized?

- -8,118
- -14,726
- -10,954
- None of the above

No, the answer is incorrect.
Score: 0
Accepted Answers:
-14,726

12) In the above question, what is the NPV of the best outcome (in Rs.) and the probability of that occurrence? *1 point*

- 15,840 and 0.30
- 29,580 and 0.24
- 24,100 and 0.06
- 30,794 and 0.09

No, the answer is incorrect.
Score: 0
Accepted Answers:
24,100 and 0.06