a 1911

GESTÃO FINANCEIRA II Lic. - Undergraduate Degree

QUIZ (04.12.2017)

Name: ……. Number: ……..

Answer each question by drawing a circle around the letter that, in your opinion, corresponds to the correct solution.

1- Free cash flow (FCF) and net income (NI) differ in the following ways:

I) Net income accrues to shareholders, calculated after interest expense; free cash flow is calculated before interest and before COGS.
II) Net income is calculated after various noncash expenses, including depreciation; FCF adds back depreciation.
III) Capital expenditures and investments in working capital do not appear in net income calculations; they do reduce free cash flows.
IV) Net income is never negative; free cash flows can be negative for rapidly growing firms, even if the firm is profitable, because investments can exceed cash flows from operations.

a) I and II only

b) II and III only

c) I, II and III only

d) IV only

2- Consider a company with the following annual FCF:

FCF1 = $20 million;
FCF2 = $20 million;
FCF3 = $20 million.
Assume that free cash flow grows at a rate of 5% for year 4 and beyond.
If the weighted average cost of capital is 10%, calculate the value of the firm.

a) $350.263

b) $469.737

c) $207.513

d) $365.289

3- Consider the following data for CDA Company:

Year	**1**	**2**	**3**	**4**
FCF (M)	$1	$2	$3	$3.06

After year 3, a constant growth rate of 2% is sustained forever. The weighted average cost of capital is 10%.

What is the value of the firm?

a) $33.554

b) $31.300

c) $43.066

d) $30.941

4- From a geometric viewpoint, how is the position diagram for a call option related to the diagram of a put option on the same stock having the same exercise price and maturity?

a) Exactly the same as the put diagram for the given exercise price

b) The mirror image of the put diagram, reflected around the exercise price

c) The inverse of the put diagram

d) Unrelated to the put diagram no matter what the exercise price

5- Buying a call option, investing the present value of the exercise price in T-bills, and short-selling the underlying share is the same as:

a) buying a put and a share

b) buying a call and a put

c) selling a call

d) buying a put

6- If the stock makes a dividend payment before the expiration date, then the put-call parity relation is:

a) Value of call = value of put + share price - present value (PV) of dividend - PV of exercise price

b) Value of call = value of put + share price + PV of dividend + PV of exercise price

c) Value of call = value of put - share price + PV of dividend - PV of exercise price

d) Value of call = value of put + share price + PV of dividend - PV of exercise price

b 1911

GESTÃO FINANCEIRA II Lic. - Undergraduate Degree

QUIZ (04.12.2017)

Name: …… Number: ……..

Answer each question by drawing a circle around the letter that, in your opinion, corresponds to the correct solution.

1- Free cash flow (FCF) and net income (NI) differ in the following ways:

I) Capital expenditures and investments in working capital do not appear in net income calculations; they do reduce free cash flows.
II) Net income is never negative; free cash flows can be negative for rapidly growing firms, even if the firm is profitable, because investments can exceed cash flows from operations.
III) Net income is calculated after various noncash expenses, including depreciation; FCF adds back depreciation.
IV) Net income accrues to shareholders, calculated after interest expense; free cash flow is calculated before interest.

a) I and II only

b) I, III and IV only

c) I, II and III only

d) All the above

2- Consider the following data:

FCF1 = $30 million; FCF2 = $30 million; FCF3 = $30 million. Assume that free cash flow grows at a rate of 5% for year 4 and beyond. If the weighted average cost of capital is 12%, calculate the value of the firm.

a) $371.003

b) $522.055

c) $392.356

d) $258.897

3- Consider the following data for WYZ Company:

Year	**1**	**2**	**3**	**4**
FCF (M)	$2	$5	$8	$8.16

Considering a constant growth rate of 2% is sustained forever after year 3 and a weighted average cost of capital 12%, calculate the value of the firm.

a) $63.853

b) $93.066

c) $63324

d) $69.547

4- From a geometric viewpoint, a call diagram normally has:

a) Positive values in the upper nodes

b) Zero values in the upper nodes

c) Positive values in the lower nodes

d) None of the above

5- Buying a put option, selling the present value of the exercise price in T-bills, and buying the underlying share is the same as:

a) Buying a call and a put

b) Buying a call

c) Selling a call

d) Buying a put

6- If the stock makes a dividend payment before the expiration date, then the put-call parity relation is:

a) Value of put =Value of call + present value (PV) of exercise price - PV of dividend - share price

b) Value of put =Value of call + present value (PV) of exercise price +PV of dividend - share price

c) Value of put =Value of call - present value (PV) of exercise price - PV of dividend - share price

d) Value of put =Value of call + present value (PV) of exercise price - PV of dividend + share price.

c 1911

GESTÃO FINANCEIRA II Lic. - Undergraduate Degree

QUIZ (04.12.2017)

Name: …… Number: ……..

Answer each question by drawing a circle around the letter that, in your opinion, corresponds to the correct solution.

1- Free cash flow (FCF) and net income (NI) differ in the following ways:

I) Capital expenditures and investments in working capital do not appear in net income calculations; they do not reduce free cash flows.
II) Net income is never negative; free cash flows can be negative for rapidly growing firms, even if the firm is profitable, because investments can exceed cash flows from operations.
III) Net income accrues to shareholders, calculated after interest expense; free cash flow is calculated before interest.
IV) Net income is calculated after various noncash expenses, including depreciation; FCF adds back depreciation.

a) I and II only

b) I, II and III only

c) III and IV only

d) I only

2- Consider the following data:

FCF1 = $40 million;
FCF2 = $40 million;
FCF3 = $40 million.
Assume that free cash flow grows at a rate of 5% for year 4 and beyond. If the weighted average cost of capital is 10%, calculate the value of the firm.

a) 700.526

b) 730.579

c) 939.474

d) 415.026

3- Consider the following data for CDA Company:

Year	**1**	**2**	**3**	**4**
FCF (M)	$2	$3	$4	$4.2

A constant growth rate of 5% is sustained forever after year 3 and the weighted average cost of capital is 10%.

What is the value of the firm?

a) 64.676
b) 70.413
c) 67.408
d) 91.303

4- From a geometric viewpoint, how is the position diagram for a put option related to the diagram of a call option on the same stock having the same exercise price and maturity?

a) Unrelated to the call diagram no matter what the exercise
b) Exactly the same as the call diagram for the given exercise price
c) The inverse of the call diagram
d) The mirror image of the call diagram, reflected around the exercise price

5- Selling a call option, selling the present value of the exercise price in T-bills, and buying the underlying share is the same as:

a) selling the put
b) buying a put and a share
c) buying a call and a put
d) buying the put

6- If the stock makes a dividend payment before the expiration date, then the put-call parity relation is:

a) Value of call = value of put + share price + PV of dividend - PV of exercise price
b) Value of call = value of put + share price + PV of dividend + PV of exercise price
c) Value of call = value of put - share price + PV of dividend - PV of exercise price
d) Value of call = value of put + share price - PV of dividend - PV of exercise price

d 1911

GESTÃO FINANCEIRA II Lic. - Undergraduate Degree

QUIZ (04.12.2017)

Name: …… Number: ……..

Answer each question by drawing a circle around the letter that, in your opinion, corresponds to the correct solution.

1- Free cash flow (FCF) and net income (NI) differ in the following ways:

I) Capital expenditures and investments in working capital appear in net income calculations; they do reduce free cash flows.
II) Net income accrues to shareholders, calculated after interest expense; free cash flow is calculated before interest.
III) Net income is calculated after various noncash expenses, including depreciation; FCF adds back depreciation.
IV) Net income is never negative; free cash flows can be negative for rapidly growing firms, even if the firm is profitable, because investments can exceed cash flows from operations.

a) I only

b) II and III only

c) I and II only

d) All the above

2- Consider the following data:

FCF1 = $50 million; FCF2 = $50 million; FCF3 = $50 million. Assume that free cash flow grows at a rate of 5% for year 4 and beyond. If the weighted average cost of capital is 12%, calculate the value of the firm.

a) 618.338

b) 870.092

c) 431.495

d) 653.927

3- Consider the following data for WYZ Company:

Year	**1**	**2**	**3**	**4**
FCF (M)	$1	$4	$6	$6.3

After year 3, a constant growth rate of 5% is sustained forever and the weighted average cost of capital is 12%. Calculate the value of the firm.

a) $72.413

b) $65.549

c) $68.142

d) $98.352

4- From a geometric viewpoint, a put diagram normally has:

a) Zero values in the upper nodes

b) Positive values in the upper nodes

c) Positive values in the lower nodes

d) None of the above

5- Selling a put option, investing the present value of the exercise price in T-bills, and short-selling the underlying share is the same as:

a) buying a call and a put

b) buying the call

c) selling the call

d) buying a put and a share

6- If the stock makes a dividend payment before the expiration date, then the put-call parity relation is:

a) Value of put =Value of call + present value (PV) of exercise price - PV of dividend - share price

b) Value of put =Value of call - present value (PV) of exercise price - PV of dividend - share price

c) Value of put =Value of call + present value (PV) of exercise price +PV of dividend - share price

d) Value of put =Value of call + present value (PV) of exercise price - PV of dividend + share price