

# BSBA AY 2015-2016 Assessment

## *Phase 1: Assessment plan*

### Learning Outcome assessed:

#### **BSBA Learning Outcome 6: Finance**

Use financial information to assess economic value of real and financial assets, and make decisions to create value.

### Assessment Method:

Exam performance

### Targeted performance, based on rubrics:

80% Meet Expectations

### Evaluation Process:

Students in section 1 were given a 75 question multiple choice exam. Students in sections 2 & 3 took a 6 question short answer/essay exam. Both tests are scored based on percentage of points received out of the total available. Both exams are attached at the end of this report (p4-16).

### Rubric:

No rubric provided.

### Course where learning outcome was assessed:

BUS 305 s1, 2, & 3, Financial Management

### Evaluator(s):

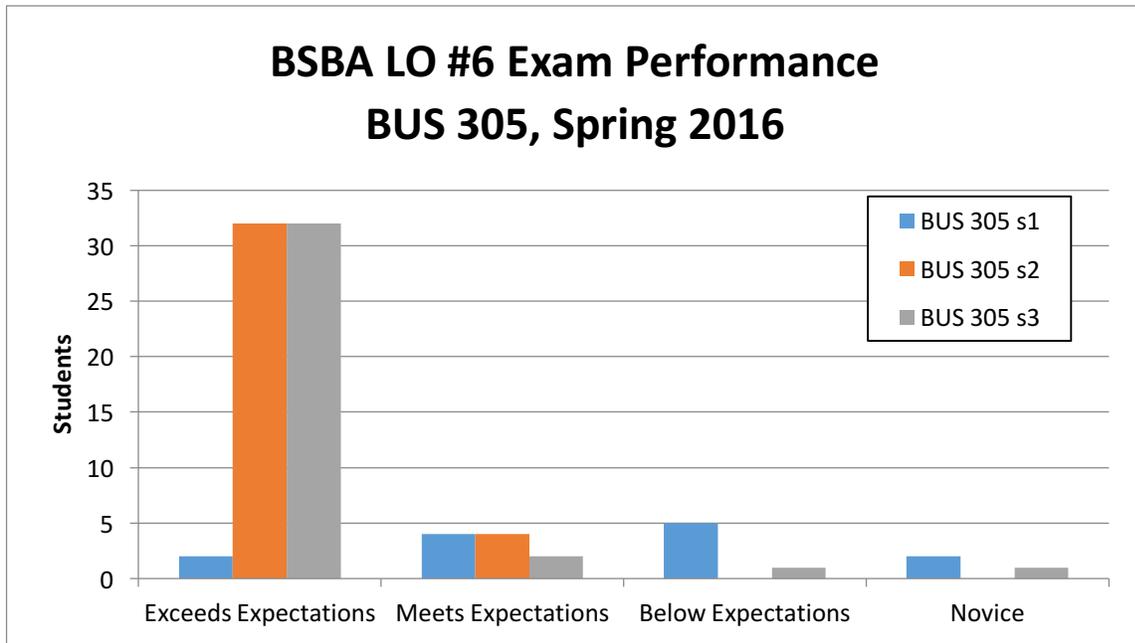
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**Phase 2: Results Assessment and Planned Action**

**Results:**

**BUS 305 Exam Results**

Number of students achieving target	Exceeds Expectations	Meets Expectations	Below Expectations	Novice	% Students Meeting or Exceeding Expectations
Course Section	> 90%	80% - 90%	70% - 80%	< 70%	
BUS 305 s1	2	4	5	2	46%
BUS 305 s2	32	4	0	0	100%
BUS 305 s3	32	2	1	1	94%



**Suggested Action:**

- Common questions need to be assessed. In this assessment, two disparate types of exams were used. Data provided for this assessment are not useful.
- Clear rubrics need to be developed.
- This outcome needs to be assessed again next year rather than waiting for the scheduled next assessment (18/19).

**What did we Learn about student learning?**

Nothing could be assessed from the data that was collected about whether the students were learning for this outcome.

**What did we learn about process?**

Nick Tay, the AoL committee representative for finance, discussed the LO as currently written with all of the faculty teaching BUS 305. The faculty discussed and rewrote the LO. They also assigned traits as follows and wrote a rubric for scoring the assessment:

**FINANCE LEARNING OUTCOME**

Demonstrate ability to identify relevant information and apply specific knowledge and analysis skills to assess the economic value of real/financial assets or investment opportunities and make appropriate decision to create value.

**MEASUREABLE TRAITS FOR LEARNING OUTCOME**

1. Identify/construct relevant cash flows for valuing a financial/real asset or an investment opportunity
2. Estimate/calculate the risk adjusted discount rate for a given risky asset or an investment
3. Value real/financial assets or investment opportunities and make appropriate decision to create value

**RUBRICS FOR MEASUREABLE TRAITS**

<b>Traits</b>	<b>Good</b>	<b>Average</b>	<b>Poor</b>
1. Identify/construct relevant cash flows for valuing a financial/real asset or an investment opportunity	Correctly identify/construct the cash flows relevant for valuation	Make minor error(s) in identifying/constructing relevant cash flows	Make one or more critical errors in identifying/constructing relevant cash flows

2. Estimate/calculate risk adjusted discount rate for a given risky asset or investment	Correctly calculate risk adjusted discount rate	Make minor error(s) in calculating risk adjusted discount rate	Make one or more critical errors in calculating risk adjusted discount rate
3. Value assets or investment opportunities and make appropriate decision to create value	Correctly value assets or investment opportunities and make the right decision to create value	Able to make the right decision to create value but make minor error(s) in the valuation	Make one or more critical error(s) in valuation and/or not able to make the right decision to create value

### ***Phase 3: Closing the Loop***

*To be filed the year after the results assessment.*

#### **Change Assessment**

Discuss how the actions taken in Phase 2 were assessed, and the results of that assessment

**Financial Management – BUS 305 Section 1****Name:** \_\_\_\_\_**EXAM #2: Chapter 6-11**

1. Books Brothers stock was priced at \$15 per share two years ago. The stock sold for \$13 last year and now it sells for \$18. What was the total return for owning Books Brothers stock during the most recent year? Assume that no dividends were paid. Round your answer to the nearest percent.
  - A) 17%
  - B) 20%
  - C) 23%
  - D) 38%
  
2. George Wilson purchased Bright Light Industries common stock for \$47.50 on January 31, 2010. The firm paid dividends of \$1.10 during the last 12 months. George sold the stock today (January 30, 2011) for \$54.00. What is George's holding period return?
  - A) 16.00%
  - B) 14.00%
  - C) 11.00%
  - D) 19.00%
  
3. In a game of chance, the probability of winning a \$50 prize is 40 percent, and the probability of winning a \$100 prize is 60 percent. What is the expected value of the prize in the game?
  - A) \$50
  - B) \$75
  - C) \$80
  - D) \$100
  
4. In a game of chance, the probability of winning a \$50 is 40 percent and the probability of losing a \$50 prize is 60 percent. What is the expected value of the prize in the game?
  - A) -\$10
  - B) \$0
  - C) \$10
  - D) \$25

5. Use the following table to calculate the expected return from an asset.

Return	Probability
0.1	0.25
0.2	0.5
0.25	0.25

- A) 15.00%  
 B) 17.50%  
 C) 18.75%  
 D) 20.00%

6. Use the following table to calculate the expected return from an asset.

Return	Probability
0.05	0.1
0.1	0.15
0.15	0.5
0.25	0.25

- A) 12.50%  
 B) 13.75%  
 C) 15.75%  
 D) 16.75%

7. Variance is equal to the square root of standard deviation.

- A) True  
 B) False

8. If you are calculating the variance and standard deviation of returns on a stock, the variance will always be larger than the standard deviation.

- A) True  
 B) False

9. The coefficient of variation divides the variance of the returns of an asset by the expected rate of return of that asset.

- A) True  
 B) False

10. The coefficient of variation is a good measure of the amount of risk that an asset will contribute to a diversified portfolio of assets.

- A) True  
 B) False

11. If you are building a portfolio, then you desire those assets to have a correlation coefficient of one.
- A) True
  - B) False
12. Braniff Ground Services stock has an expected return of 9 percent and a variance of 0.25 percent. What is the coefficient of variation for Braniff? Round your final answer to four decimal places.
- A) 0.0278
  - B) 0.5556
  - C) 1.8001
  - D) 36.0002
13. Sayers purchased a stock with a coefficient of variation equal to 0.125. The expected return on the stock is 20 percent. What is the variance of the stock?
- A) 0.000625
  - B) 0.025000
  - C) 0.625000
  - D) 0.790500
14. In order to keep the total return of a stock equal to 100 percent, the income component for that stock must be zero.
- A) True
  - B) False
15. Robert paid \$100 for a stock one year ago. The total return on the stock was 10 percent. Therefore, the stock must be selling for \$110 today.
- A) True
  - B) False
16. Whenever the outcome of an event has a number of different possibilities that have equal probability of occurrence, then the expected value of the outcome is equal to the simple average of the individual events.
- A) True
  - B) False
17. You have placed a wager such that you will either receive nothing if you lose the bet or you will receive \$10 if you win the bet. If the expected cash receipt is \$9, then there is a 100 percent probability that you will win the wager.
- A) True
  - B) False
18. The expected return on the market portfolio is equal to the market risk premium.
- A) True
  - B) False

19. Convertible bonds can be converted into shares of common stock at some predetermined ratio at the discretion of the bondholder.
  - A) True
  - B) False
  
20. The value, or price, of any asset is the present value of its future cash flows.
  - A) True
  - B) False
  
21. The yield to maturity of a bond is the discount rate that makes the present value of the coupon and principal payments equal to the price of the bond.
  - A) True
  - B) False
  
22. Interest rate risk is the risk that bond prices will fluctuate as interest rate changes.
  - A) True
  - B) False
  
23. As interest rates fall, the prices of bonds decline.
  - A) True
  - B) False
  
24. Higher coupon bonds have greater interest rate risk.
  - A) True
  - B) False
  
25. All other things being equal, a given change in the interest rates will have a greater impact on the price of a low-coupon bond than a higher-coupon bond with the same maturity.
  - A) True
  - B) False
  
26. Bonds with a call provision pay lower yields than comparable noncallable bonds.
  - A) True
  - B) False
  
27. The risk that the lender may not receive payments as promised is called default risk.
  - A) True
  - B) False
  
28. U.S. Treasury securities are the best proxy measure for the risk-free rate.
  - A) True
  - B) False
  
29. Upward-sloping yield curves often occur before the beginning of recession.
  - A) True
  - B) False

30. Briar Corp is issuing a 10-year bond with a coupon rate of 7 percent. The interest rate for similar bonds is currently 9 percent. Assuming annual payments, what is the present value of the bond? (Do not round intermediate computations. Round your final answer to the nearest dollar.)
- A) \$872
  - B) \$1,066
  - C) \$990
  - D) \$945
31. Regatta, Inc., has six-year bonds outstanding that pay a 8.25 percent coupon rate. Investors buying the bond today can expect to earn a yield to maturity of 6.875 percent. What should the company's bonds be priced at today? Assume annual coupon payments. (Do not round intermediate computations. Round your final answer to the nearest dollar.)
- A) \$972
  - B) \$1,066
  - C) \$1,014
  - D) \$923
32. Triumph Corp. issued five-year bonds that pay a coupon of 6.375 percent annually. The current market rate for similar bonds is 8.5 percent. How much will you be willing to pay for Triumph's bond today? (Do not round intermediate computations. Round your final answer to the nearest dollar.)
- A) \$1,023
  - B) \$1,137
  - C) \$916
  - D) \$897
33. The yield to maturity of a bond is the discount rate that makes the present value of the coupon and principal payments:
- A) exceed the price of the bond.
  - B) equal to zero.
  - C) equal to the price of the bond.
  - D) less than the price of the bond.
34. Which one of the following statements is **NOT** true of realized yield?
- A) The realized yield is the return earned on a bond given the cash flows actually received by the investor.
  - B) The realized yield is equal to the yield to maturity even if the bond is sold prior to maturity.
  - C) It is the interest rate at which the present value of the actual cash flows generated by the investment equals the bond's price at the time of sale of the bond.
  - D) All of the above are true.

35. Anna would receive \$15,000 from a bank deposit after 2 years which had an interest of 3.5%. The amount of \$15,000 represents the:
- A) present value of an annuity
  - B) future value of an annuity
  - C) present value
  - D) future value
36. In computing the present and future value of multiple cash flows:
- A) each cash flow is discounted or compounded at the same rate.
  - B) each cash flow is discounted or compounded at a different rate.
  - C) earlier cash flows are discounted at a higher rate.
  - D) later cash flows are discounted at a higher rate.
37. Which of the following statements is **NOT** true about the general dividend valuation model?
- A) The model does not assume any specific pattern for future dividends, such as a constant growth rate.
  - B) It makes a specific assumption about when the share of stock is going to be sold in the future.
  - C) The model calls for forecasting an infinite number of dividends for a stock.
  - D) The price of a share of stock is the present value of all expected future dividends.
38. Which of the following statements is true about growth stocks?
- A) These are stocks of firms that grow their sales at above-average rates and are expected to do so for a length of time.
  - B) These are stocks of firms that grow their earnings at above-average rates and are expected to do so for a length of time.
  - C) They generally pay dividends during their fast growth phase.
  - D) None of the above.
39. Which of the following are the three simplifying assumptions that cover most stock growth patterns?
- A) Dividends remain constant over time, dividends grow at a constant rate, and dividends are equal to zero.
  - B) Dividends have a zero-growth rate, dividends grow at a varying rate, and dividends are equal to zero.
  - C) Dividends remain constant over time, dividends grow at a constant rate, and dividends have a mixed growth pattern.
  - D) None of the above.
40. Which of the following statements is **NOT** true about zero-growth stocks?
- A) Dividend payment pattern remains constant over time.
  - B) The cash flow pattern resembles a perpetuity with a constant cash flow.
  - C) Dividend pattern for common stock of a company shows growth over time.
  - D) There is no growth in dividends over time.
41. Which of the following statements is **NOT** true about constant-growth stocks?
- A) Cash dividend remains constant over time.

- B) Mature companies with a history of stable growth show this pattern.
  - C) Dividends grow at a constant rate from one period to the next forever.
  - D) Far distant-dividends have a very small present value and add little to the stock's price.
42. The constant-growth dividend model will provide invalid solutions when:
- A) the growth rate of the stock exceeds the required rate of return for the stock.
  - B) the growth rate of the stock is less than the required rate of return for the stock.
  - C) the growth rate of the stock is equal to the risk-free rate.
  - D) None of the above.
43. A broker market eliminates the need for time-consuming search for a fair deal by buying and selling immediately from its inventory of securities.
- A. True
  - B. False
44. NASDAQ is the best-known example of a direct market.
- A. True
  - B. False
45. In an auction market, buyers and sellers confront each other directly and bargain over price.
- A. True
  - B. False
46. The New York Stock Exchange is the best-known example of an auction market.
- A. True
  - B. False
47. The common stockholders of a company have unlimited liability.
- A. True
  - B. False
48. Preferred stockholders are not guaranteed any dividend payments and have the lowest-priority claim on the firm's assets in the event of bankruptcy.
- A. True
  - B. False
49. Preferred dividend payments are fixed obligations of the firm, similar to the interest payments on corporate bonds.
- A. True
  - B. False
50. The market considers preferred stock to be a debt security because the dividend payment is a fixed contractual obligation and has credit ratings like bonds.
- A. True
  - B. False

51. Valuation of common and preferred stock is done using a different valuation formula than that used for bonds.  
A. True  
B. False
52. The goal of the capital budgeting decisions is to select capital projects that will decrease the value of the firm.  
A) True  
B) False
53. Capital budgeting decisions, once made, are not easy to reverse because of the huge investments involved.  
A) True  
B) False
54. The basis on which capital budgeting plans are made is a firm's three- to five-year strategic plan.  
A) True  
B) False
55. Most of the information required to make capital budgeting decisions are internally generated, beginning with the sales force.  
A) True  
B) False
56. All capital budgeting projects are independent projects.  
A) True  
B) False
57. When two projects have cash flows that are tied to each other, the projects may be classified as independent.  
A) True  
B) False

58. Projects are classified as independent when their cash flows are unrelated.
- A) True
  - B) False
59. When two projects are independent, accepting one project implicitly eliminates the other.
- A) True
  - B) False
60. When two projects are mutually exclusive, accepting one project implicitly eliminates the other.
- A) True
  - B) False
61. Projects that are classified as contingent could be mandatory or optional projects.
- A) True
  - B) False
62. LaGrange Corp. has forecasted that over the next four years the average annual after-tax income will be \$45,731. The average book value of the manufacturing equipment that is used is \$167,095. What is the accounting rate of return? (Round your answer to one decimal place.)
- A) 33.3%
  - B) 27.4%
  - C) 29.8%
  - D) 22.3%
63. Stump Storage Co. is expecting to generate after-tax income of \$155,708, \$159,312, and \$161,112 for each of the next three years. The equipment used will have an average book value of \$251,575 over that period. What is the ARR? (Do not round intermediate computations. Round final answer to one decimal place.)
- A) 65.7%
  - B) 69.4%
  - C) 63.1%
  - D) 66.8%
64. Which of the following statements about IRR is **NOT** true?
- A) The IRR is the discount rate that makes the NPV greater than zero.
  - B) The IRR is a discounted cash flow method.
  - C) The IRR is an expected rate of return.
  - D) None of the above
65. The internal rate of return is
- A) the discount rate that makes the NPV greater than zero.
  - B) the discount rate that makes the NPV equal to zero.
  - C) the discount rate that makes the NPV less than zero.
  - D) Both a and c are correct.

66. When evaluating capital projects, the decisions using the NPV method and the IRR method will agree if
- A) the projects are independent.
  - B) the cash flow pattern is conventional.
  - C) the projects are mutually exclusive.
  - D) Both a and b are correct.
67. In evaluating capital projects, the decisions using the NPV method and the IRR method may disagree if
- A) the projects are independent.
  - B) the cash flows pattern is unconventional.
  - C) the projects are mutually exclusive.
  - D) Both b and c are correct.
68. Which of the following cash flow patterns is **NOT** an unconventional cash flow pattern?
- A) A positive initial cash flow is followed by negative future cash flows.
  - B) A cash flow pattern in which there are alternate inflows and outflows.
  - C) A negative initial cash flow is followed by positive future cash flows.
  - D) A cash flow stream looks similar to a conventional cash flow stream except for a final negative cash flow.
69. Quick Sale Real Estate Company is planning to invest in a new development. The cost of the project will be \$23 million and is expected to generate cash flows of \$14,000,000, \$11,750,000, and \$6,350,000 over the next three years. The company's cost of capital is 20 percent. What is the internal rate of return on this project? (Do not round intermediate computations. Round final answer to the nearest percent.)
- A) 22%
  - B) 20%
  - C) 24%
  - D) 28%
70. Accounting earnings are a reliable measure of the costs and benefits of a project.
- A) True
  - B) False
71. If taken without accompanying changes in cash flow, changes in a company's accounting earnings do not impact the overall value of the firm.
- A) True
  - B) False
72. Allocated costs such as corporate overhead should be included in cash flow calculations.
- A) True
  - B) False
73. The impact of a project on another project's cash flows should be ignored.
- A) True
  - B) False
74. Opportunity costs should always be included in the cash flow calculations of a project.
- A) True

B) False

75. Your firm is evaluating the merits of several different machines. Machine A has a useful life of 5-years, generates an NPV of \$53,250, an IRR of 13.6% and an equivalent annual cost of \$10,316. Machine B has a useful life of 3-years, an NPV of \$61,051, an IRR of 12.5%, and an equivalent annual cost of \$9,724. Machine C has a useful life of 4-years, generates an NPV of \$55,225, an IRR of 15.2% and an equivalent annual cost of \$7,535 Machine D has a useful life of 7-years, generates an NPV of \$64,020, an IRR of 11.4% and an equivalent annual cost of \$8,885.

Which machine should be purchased and why?

- A) Machine C, because it has the highest IRR.
- B) Machine D, because it has the highest NPV.
- C) Machine A, because it has the most positive EAC
- D) Machine B, because it has the shortest useful life.

BUS 305 Section 2 &amp; 3

Test 1.

Principles of Finance

Name: \_\_\_\_\_

Spring 2016

**Short Answer (SHOW ALL WORK for partial credit)****Q.1 (20 points)**

The Whitesell Athletic Corporation's bonds have a face value of \$1,000 and a 9% coupon paid semiannually. The bonds mature in 12 years but are callable in 5 years at a price of \$1200. The bonds currently sell for 105% of par.

- (A) What is the current yield for these bonds?
- (B) What is the yield to call on these bonds?
- (C) What is the yield to maturity on these bonds?
- (D) What will be the price of these bonds two years from now if market rates are 8%.

**Q.2 (20 points)**

You've just won the US Lottery. Lottery officials offer you the choice of three alternative payouts:

- (a) \$6.5 million 12 years from today or
- (b) \$1 million a year for 12 years starting 1 year from today or
- (c) \$1 million a year for 6 years starting 1 year from today plus an additional \$3.5 million dollar lump sum payout 10 years from now.

If the relevant discount rate is 10%, then which alternative do you choose? (Justify your response numerically)

**Q.3 (5 points)**

Bank A offers a 1-year certificate of deposit that pays 9% compounded annually. Bank B offers a 1-year CD that is compounded quarterly. The CDs have identical risk. What is the stated, or nominal rate (APR) that Bank B would have to offer to make you indifferent between the two investments? Show work!

**Q.4 (5 points)**

You want to buy another vehicle and know you can afford \$400 a month for 5 years. The interest rate is 6 percent, compounded monthly. How much money can you afford to borrow?

**Q.5 (5 points)**

Over the past 30 years your parents saved money each month for their retirement. They retired this week and expect to live another 28 years. Their investment account is currently valued at \$487,300 and is expected to earn 7 percent annually in the future. How much money can they withdraw annually if they wish to spend all of their money during their lifetime?

**Q.6 (5 points)**

A 9 percent, \$1,000 bond matures in 16 years, pays interest semi-annually, and has a yield-to-maturity of 9.68 percent. What is the current market price?