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FINAL EXAM

Course # 571004
Valuation: Businesses, Securities and Real Estate

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by: Dr. Jae K. Shim, Ph.D., 2014, 48 pages

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Chapter 1 - Corporate Valuations

1. There are many reasons for determining the value of a company. The reasons for a valuation do NOT include:
   - ______ The purchase or sale of the business.
   - ______ External financial reporting.
   - ______ Mergers and acquisitions.
   - ______ Buy-back agreements.

2. Tough economic times and economies of scale encourage all the following EXCEPT
   - ______ Increased litigation involving partner disputes.
   - ______ Rapid expansion during a recession economy.
   - ______ Lawsuits involving dissenting shareholder actions.
   - ______ Mergers and acquisitions.

3. The estimated rate of capitalization (cost of capital) includes
   - ______ Analyzing financial health.
   - ______ Checking overall forecast for reasonableness.
   - ______ Developing target market value weights.
   - ______ Selecting proper valuation method.

4. For the dissolution of the business, the company's value might be based on the __________________ of the company's assets.
   - ______ Replacement value.
   - ______ Liquidated value.
   - ______ Fair market value.
   - ______ Duplication value.

5. Business valuation methods do NOT include
   - ______ Price-Earnings (P-E) ratios.
   - ______ Adjusted net book value.
   - ______ Replacement cost.
   - ______ Capitalization of earnings.

6. The discount rate ordinarily used in present value calculations is the
   - ______ Federal Reserve rate.
   - ______ Treasury bill rate.
   - ______ Minimum required rate of return set by the firm.
   - ______ Prime rate.

7. The present value of $110,000 expected to be received one year from today at an interest rate (discount rate) of 10% per year is: (Note: the present value of $1 at 10% for one period is 0.909).

   ______ $121,000.

   ______ $99,990.

   ______ $110,000.

   ______ $909,000.

8. A business is worth the discounted value of future cash earnings plus the discounted value of the expected selling price. Which of the following used this concept?

   ______ Capitalization of earnings method.

   ______ Excess earnings return on assets method.

   ______ Discount cash flow method.

   ______ Adjusted net assets method.

9. "Earnings surprises" are defined as

   ______ A business ownership interest that can be sold quickly will be worth more than a similar interest that cannot be sold quickly.

   ______ A business valuation that does not have to be restricted to the valuation of an entire company.

   ______ Estimates that can (usually do) prove to be off target; when this occurs, for example, a positive earnings results exceeding market expectations.

   ______ For publicly traded stocks, stock trading prices that are often directly proportional to earnings.

10. __________________ is NOT an approach to determining the fundamental value for a security investment.

    ______ Charting.

    ______ Capitalization of earnings.

    ______ Dividend payout.

    ______ P/E ratio.

Chapter 2 - Security and Real Estate Valuation

11. The valuation process for a bond does NOT require knowledge of

    ______ Amount of cash flows to be received by investor.

    ______ A Bond's yield curve.

    ______ Maturity date of the loan.

    ______ Investor's required rate of return.

12. Which of the following is directly applied in determining the value of a stock when using the Gordon's valuation model?

    ______ The firm's capital structure.

    ______ The firm's cash flows.

    ______ The growth rate in earnings.

    ______ The firm's liquidity.

13. Consider a common stock that paid a $3 dividend per share at the end of the last year and is expected to pay a cash dividend every year at a growth rate of 10 percent. Assume the investor's required rate of return is 12 percent. The value of the stock would be

- ______ $330.
- ______ $165.
- ______ $150.
- ______ $3.30.

14. A beta of “0” means

- ______ The security is twice as volatile or risky as the market.
- ______ The security is half as volatile as the market.
- ______ The security is independent of the market (risk-free).
- ______ The security is as volatile or risky as the market.

15. Price-earnings ratio is NOT affected by

- ______ Growth rate of earnings.
- ______ Size of the firm.
- ______ Cash flow from operations.
- ______ Expected dividends.

16. The capitalization of earnings method is based on the _______________ assumption.

- ______ Zero growth case.
- ______ Constant growth case.
- ______ Exponential growth case.
- ______ Modified constant growth case.

17. A measure of a security's volatility relative to an average security is

- ______ Coefficient of variation.
- ______ Standard deviation.
- ______ Beta.
- ______ Expected return.

18. Forecasted price at the end of year is

- ______ Estimated EPS in year t x estimated P/E ratio
- ______ Estimated EPS in year t x estimated P/S ratio
- ______ Estimated EPS in year t x estimated P/D ratio
- ______ Estimated EPS in year t x estimated P/ ratio

19. Assume that required rate of return stay the same but that the future dividends are expected to grow over the long run. As a result of the growth in dividends, the company’s stock price should

- ______ Increase.
- ______ Decrease.
- ______ Stay constant.

|______ Change, but in no obvious direction.

20. The market value of a firm's outstanding common shares will be higher if

|______ Investors have a lower required return on equity.

|______ Investors expect lower dividend growth.

|______ Investors have longer expected holding periods.

|______ Investors have shorter expected holding periods.

21. By using the dividend growth model, estimate the value of the stock for a firm with a required rate of 20%, an estimated dividend at the end of the first year of $3.00 per share, and an expected growth rate of 10%.

|______ $20.

|______ $15.

|______ $30.

|______ Cannot be determined.

22. The difference between the required rate of return on a given risky investment and that on a riskless investment with the same expected return is the

|______ Coefficient of variation.

|______ Market risk premium.

|______ Standard deviation.

|______ Beta coefficient.

23. ______________________ is NOT considered a pragmatic approach to common stock valuation.

|______ P/E ratios.

|______ Discounted cash flow analysis.

|______ Price-sales (P/S) ratios.

|______ Price-dividend ratios.

24. The market portfolio, such as Standard & Poor's 500, has a beta of ____.

|______ 0.0

|______ 0.5

|______ 1.0

|______ 2.0

25. The ___________________________ method uses the present value technique under which the asking price or value of a real estate investment is the present worth of the future after-tax cash flows from the investment, discounted at the rate of return required by the investor.

|______ Gross Income Multiplier.

|______ Discounted cash flow.

|______ Capitalization rate

|______ Minimum rate of return.

26. _________________ is NOT a rule-of-thumb method to arrive at the estimated value of an income producing property.

|______ Gross income multiplier.

|______ Dividend growth.

|______ Net income multiplier.

|______ Capitalization rate.

27. Certain terms used in real estate investments have applications similar to those used in security analysis. For example, the price earnings (P/E) ratio found in the analysis of stocks is equivalent to _____________ in real estate investment analysis.

|______ Earnings on sales price.

|______ Net income multiplier.

|______ Discounted cash flow.

|______ Cost recovery.

28. Which of the following is equal to before-tax cash flow from operations?

|______ Net operating income - Debt service.

|______ Gross operating income - Debt service.

|______ Gross operating income - Operating expense.

|______ Net operating income - Income tax.

29. Calculate the capitalization rate for the following investment: Net operating income (NOI) = $18,750; Purchase price = $150,000; Equity = 20%

|______ 10%.

|______ 14%.

|______ 12.5%.

|______ 15%.

30. The capitalization rate is

|______ Purchase price/net operating income.

|______ Net operating income/purchase price

|______ Purchase price/gross rental income..

|______ Risk-free rate.

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