

淡江大學八十七學年度碩士班入學考試試題

系別：財務金融學系

科目：財務管理

本試題共 2 頁

Answer all 5 questions. 20 points for each question.

Show your computational procedure in clear an organized manner.

1. Honeyhouse Company has a beta of 1.2, the risk free rate of return is currently 8%, and the market return is 14%. The company, which plans to pay a dividend of \$2.60 per share in the next year, anticipates that its future dividends will increase at an annual rate consistent with the geometric mean annual dividend return over the 1991-1997 period. The dividend per share in the 7-year period is as follows:

Year	Dividend per share
1991	1.72
1992	1.80
1993	1.82
1994	1.95
1995	2.10
1996	2.28
1997	2.46

- 1.1 Use the capital asset pricing model (CAPM) to determine the required return on Honeyhouse Company.
 - 1.2 Using the constant growth model and your finding in 1.1, estimate the value of Honeyhouse Company.
 - 1.3 If the company's beta decreases, explain what effect would have on the value of Honeyhouse Company.
- 2.1 Explain the meanings of "optimal capital structure." Why is it important to a firm?
 - 2.2 Drawing graphs to show how a firm determines the optimal capital structure, that is, the percentage debt financing.
 - 2.3 MM suggest irrelevant theory of capital structure, what other considerations propose a relevant capital structure? Briefly describe them.
3. The TKU Company purchased a machine 5 years ago at a cost of \$100,000. The machine had an expected life of 10 years at the time of purchase, and an expected salvage value of \$10,000 at the end of the 10 years. It is being depreciated by the straight line method toward a salvage value of \$10,000, or by \$9,000 per year.

A new machine can be bought for \$150,000, including installation costs. During its 5-year life, it will reduce cash operating expenses by \$50,000 per year.

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Sales are not expected to change. At the end of its useful life, the machine is estimated to be worthless for both book and market value. Again, straight line depreciation is used.

The old machine can be sold today for \$65,000. The firm's tax rate is 35 percent. The appropriate discount rate is 16 percent.

- 3.1 Suppose TKU wants to replace the old machine, evaluate the amount of the initial cash flow at year 0.
- 3.2 What incremental operating cash flows will occur at the end of year 1 through 5?
- 3.3 What incremental terminal cash flow will occur at the end of year 5?
- 3.4 What is the NPV of this replacement project? Would you suggest to replace the old machine?

4. There has been debate over whether increasing dividend payout ratio affects the stock prices of companies.
 - 4.1 Discuss the dividend irrelevance theory suggested by Modigliani and Miller (MM).
 - 4.2 Discuss any 2 reasons that dividend policy might have effect on stock value.

5. A major wave of merger occurred in U.S. around 1980s. Lately, there is an increasing tendency of merger and acquisition in Taiwan as well.
 - 5.1 Describe the incentives for a company to buy other firm(s).
 - 5.2 Describe the usual types of merger.