

- \_\_\_\_\_ 1. \_\_\_\_\_ is the risk that a government action will negatively affect a company's cash flows.
- Political risk**
  - Economic risk
  - Social risk
  - Capital income risk
- \_\_\_\_\_ 2. \_\_\_\_\_ is a broad concept that encompasses political risk and its economic and financial environment.
- Social risk
  - Nationalization risk
  - Country risk**
  - Economic risk
- \_\_\_\_\_ 3. Political risk
- typically does not covary with the world market return and does not require a discount rate adjustment when forecasting cash flows.**
  - typically does covary with the world market return and does not require a discount rate adjustment when forecasting cash flows.
  - typically does not covary with the world market return and requires a discount rate adjustment when forecasting cash flows.
  - typically does covary with the world market return and requires a discount rate adjustment when forecasting cash flows.
- \_\_\_\_\_ 4. According to the principles developed in Chapter 14, political risk should be accounted for in the capital budgeting process by:
- increasing the required discount rate.
  - adjusting expected returns.**
  - reducing the required discount rate.
  - No adjustment should be made for political risk.
- \_\_\_\_\_ 5. When a firm undertakes a project and obtains an option to do another project in the future, it is often referred to as a \_\_\_\_\_.
- put
  - call
  - hedge
  - growth option**
- \_\_\_\_\_ 6. Which one of the following is NOT a financial side effect to account for when developing the adjusted net present value of a project?
- Subsidized financing from governments
  - Capital expenditures**
  - The cost of issuing securities
  - The costs of financial distress

- \_\_\_\_\_ 7. Which of these ultimately does NOT reduce the Free Cash Flow of a project?
- a. capital expenditures
  - b. increase in net working capital
  - c. ***accounting depreciation***
  - d. cost of goods and services
- \_\_\_\_\_ 8. Which do we use to discount free cash flow when calculating the net present value of a project?
- a. ***the rate that is adjusted for the covariance of the project's return with the return on the world market portfolio***
  - b. the risk free rate
  - c. the actual market interest rate
  - d. the return on the world market portfolio
- \_\_\_\_\_ 9. If there are financial side effects, we should
- a. include them in the calculation of the net present value for the all-equity firm.
  - b. ***calculate their net present value separately and add to the net present value for the all-equity firm.***
  - c. we should value the growth option of these side effects and add to the net present value for the all-equity firm.
  - d. we should not include them in the adjusted net present value.