

- _____ 1. 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***
- _____ 2. 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
- _____ 3. Which of these ultimately does NOT reduce the Free Cash Flow of a project?
- capital expenditures
 - increase in net working capital
 - accounting depreciation***
 - cost of goods and services
- _____ 4. Which do we use to discount free cash flow when calculating the net present value of a project?
- the rate that is adjusted for the covariance of the project's return with the return on the world market portfolio***
 - the risk free rate
 - the actual market interest rate
 - the return on the world market portfolio
- _____ 5. If there are financial side effects, we should
- include them in the calculation of the net present value for the all-equity firm.
 - calculate their net present value separately and add to the net present value for the all-equity firm.***
 - we should value the growth option of these side effects and add to the net present value for the all-equity firm.
 - we should not include them in the adjusted net present value.

- _____6. Modigliani and Miller argued that a corporation's financial policies, such as hedging foreign exchange risk, _____ unless they lowered the firm's taxes, affected its investment decisions, or could be done more cheaply than individual investors' transactions could be done.
- a. ***do not change the value of the firm's assets***
 - b. always change the value of the firm's assets
 - c. were difficult to assess
 - d. were relevant to a firm's dividend policy
- _____7. What does it mean when a tax code is convex?
- a. It is a flat tax and does not vary as taxable income varies.
 - b. It is regressive and taxes lower incomes more.
 - c. Is proportional and the rate always taxes at proportional income equivalents.
 - d. ***It imposes a higher rate on higher incomes and a lower rate on lower incomes.***
- _____8. Tax benefits of hedging are greater in which one of the following?
- a. ***When the tax code is more progressive***
 - b. When a firm's pretax income is more stable
 - c. When more of the firm's income is subject to a flat rate tax
 - d. When the tax code is more regressive
- _____9. Which of these is NOT a valid or plausible argument for hedging foreign exchange risk:
- a. Hedging can lower the costs of financial distress
 - b. ***Hedging equity risk is simple and not very costly***
 - c. Hedging can change the assessment of a firm's managers
 - d. Hedging can reduce the firm's expected taxes