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CHAPTER

An Overview

Multiple Choice Questions

1. A merger may involve absorption or consolidation:
(a) True (b) False

2. In a merger the acquiring company is also referred to as the amalgamating company:
(a) True (b) False

3. The value of a company is also called its enterprise value:
(a) True (b) False

4. The book value of investor claims is always less than the book value of the assets of a company:
(a) True (b) False

5. The divergence between the book value and the market value is typically more in an IT company than in a manufacturing company:
(a) True (b) False

6. Banking and real estate are intangible intensive sectors:
(a) True (b) False

7. A market is said to be efficient if the market value of a company's equity share is equal to its intrinsic value:
(a) True (b) False

8. The capital structure of a firm has a bearing on its DCF value:
(a) True (b) False

9. DCF approach to valuation is informationally more intensive than the stock and debt approach:
(a) True (b) False

10. In the free cash flow to equity model, the discounting factor used is the cost of equity:
(a) True (b) False

11. Where subsidised financing is available, the enterprise value of a firm is less than the value of the unlevered equity free cash flow:
(a) True (b) False

12. The ratio of the economic profit to invested capital is equal to the excess of the return on invested capital to the cost of equity:
(a) True (b) False

13. It is not possible to determine the opportunity cost of capital for an option contract:
(a) True (b) False

14. Equity analysts make buy recommendations more often than sell recommendations:
(a) True (b) False

15. In M&A transactions, a strategic buyer focuses more on IRR, unlike a financial buyer:
(a) True (b) False

16. The primary objective of management should be to:
(a) Maximise shareholder value
(b) Maximise customer satisfaction
(c) Maximise the annual growth rate
(d) Minimise the conflict between the shareholders and the bondholders.
(e) None of the above

17. The purpose of corporate valuation is to:
(a) Determine true value of a firm
(b) To estimate precise market value of a firm
(c) To estimate fair market value of a firm
(d) To calculate the correct book value of a firm .
(e) None of the above

18. The mirror image of a purchase of a division or plant or unit is:
(a) Amalgamation
(b) Divestiture
(c) Takeover
(d) Merger
(e) None of the above

19. In the book value approach to valuation, the book value figures are typically adjusted to reflect:
(a) Replacement value
(b) Liquidation value
(c) Fair value
(d) Any of the above
(e) None of the above

20. When the markets are very efficient, which among the following would be the most suitable valuation method?
(a) DCF approach
(b) Liquidation approach
(c) Book value approach
(d) Stock and debt approach.
(e) None of the above

21. A multiple that is not very commonly used in the context of valuation of equity is:
(a) EV/EBIDTA
(b) P/BV
(c) P/E

(d) All the above
(e) None of the above

22. The preferred approach for pricing of IPOs would be:
(a) DCF valuation
(b) Relative valuation
(c) Market sentiment approach
(d) Liquidation approach
(e) None of the above

23. Transactions multiple method along with the DCF method is commonly used in:
(a) Pricing of IPOs
(b) Divestitures
(c) Divestments
(d) Mergers and acquisitions
(e) None of the above

24. Intrinsic value of a share is commonly taken to be indicated by its:
(a) Book value
(b) Market value
(c) DCF value
(d) Optimal value
(e) None of the above

25. The most widely accepted definition of fair market value of a company was laid down by:
(a) SEC of the US
(b) SEBI of India
(c) Wall Street Journal of the US
(d) Internal Revenue Service of the US
(e) None of the above