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CHAPTER

Other DCF Models

Multiple Choice Questions

1. The free cash flow to equity model may be viewed as an extension of the dividend discount model:
(a) True (b) False

2. The free cash flow to equity model comes handy in valuing a company whose corporate governance credentials are not very good:
(a) True (b) False

3. It makes sense to use the adjusted present value model to value a company that relies entirely on its equity capital:
(a) True (b) False

4. DCF analysis with some slight modifications can be used to value firms which are in distress:
(a) True (b) False

5. DCF method is never used for valuing call and put options:
(a) True (b) False

6. In which of the following WACC is used for discounting:
(a) Enterprise DCF model
(b) Dividend discount model
(c) Free cash flow to equity model
(d) Unlevered equity cash flow in APV model
(e) None of the above.

7. Intuitively it is easier to understand the free cash flows to the firm than the free cash flows to equity:
(a) True (b) False

8. Dividend discount model undervalues companies that:
(a) Have high payout ratio
(b) Have low build up of cash balances
(c) Have large build up of cash balances
(d) All the above
(e) None of the above

9. FCFE model may not be appropriate for a company known for very poor corporate governance:
(a) True (b) False

10. According to the Economic Profit model, the value of a firm is equal to the present value of the future economic profit stream:

(a) True (b) False

11. It may be difficult to apply the DCF model of valuation to a firm which:

(a) Has substantial unutilised assets
(b) Has significant patents and product options.
(c) Is a private firm
(d) All the above
(e) None of the above

12. In situations where the capital structure of a firm is likely to change substantially over time, the appropriate approach to valuation is the:

(a) APV approach
(b) Economic profit approach
(c) Dividend discount approach
(d) Free cash flow to equity approach
(e) None of the above

13. The rate that does not remain constant in H model is:

(a) Cost of equity
(b) Dividend payout rate
(c) Earnings growth rate
(d) All the above
(e) None of the above

14. Which of the following is not a major driver of growth?

(a) Ploughback ratio
(b) Capitalisation rate
(c) Return on equity
(d) All the above
(e) None of the above

15. Dividends are the only cash flows received by the shareholders of a company:

(a) True (b) False