1) Triad common stock is selling for $27.80 a share and has a dividend yield of 2.8 percent. What is the dividend amount? 1) _____

A) $.31 B) $7.80 C) $3.49 D) $.78 E) $4.25

2) The Glass Ceiling paid an annual dividend of $1.64 per share last year and just announced that future dividends will increase by 1.3 percent annually. What is the amount of the expected dividend in Year 6? 2) _____

A) $1.75 B) $1.46 C) $1.43 D) $1.58 E) $1.77

3) A project has the following cash flows. What is the internal rate of return? 3) _____

Year	Cash Flow
0	–$33,800
1	12,360
2	14,580
3	16,710

A) 13.58 percent B) 13.23 percent
C) 12.96 percent D) 13.67 percent

4) The common stock of GT Enterprises is selling for $63.09 a share. The company pays a constant annual dividend and has a total return of 11.64 percent. What is the amount of the dividend? 4) _____

A) $4.04 B) $6.81 C) $7.34 D) $5.02 E) $7.70

5) Healthy Foods just paid its annual dividend of $1.62 a share. The firm recently announced that all future dividends will be increased by 2.1 percent annually. What is one share of this stock worth to you if you require a rate of return of 15.7 percent? 5) _____

A) $10.54 B) $13.07 C) $11.91 D) $12.95 E) $12.16

6) This morning, you purchased a stock that will pay an annual dividend of $1.90 per share next year. You require a 12 percent rate of return and the dividend increases at 3.5 percent annually. What will your capital gain be in dollars on this stock if you sell it three years from now? 6) _____

A) $2.43 B) $2.51 C) $2.87 D) $2.92 E) $2.63

7) What is the net present value of a project with the following cash flows if the discount rate is 15 percent? 7) _____

Year	Cash Flow
0	–$48,100
1	15,600
2	28,900
3	15,200

A) $9,593.19 B) -$1,618.48 C) $1,035.24 D) -$2,687.98

8) What is the net present value of a project that has an initial cost of $42,700 and produces cash inflows of $9,250 a year for 9 years if the discount rate is 14.65 percent? 8) _____

A) $2,111.41 B) $1,240.23 C) $1,992.43 D) $798.48

9) Corner Restaurant is considering a project with an initial cost of $211,600. The project will not produce any cash flows for the first three years. Starting in Year 4, the project will produce cash inflows of $151,000 a year for three years. This project is risky, so the firm has assigned it a discount rate of 18.6 percent. What is the project's net present value? 9) _____

A) -$16,670.67 B) $51,786.86 C) $2,255.56 D) -$4,591.11

10) The Golden Goose is considering a project with an initial cost of $46,700. The project will produce cash inflows of $10,000 a year for the first two years and $12,000 a year for the following three years. What is the payback period? 10) _____

A) 4.23 years B) 3.41 years C) 2.87 years D) 3.23 years

11) Greenbriar Cotton Mill is spending $284,000 to update its facility. The company estimates that this investment will improve its cash inflows by $50,500 a year for 8 years. What is the payback period? 11) _____

A) 4.03 years
B) 5.48 years
C) 5.62 years
D) The project never pays back.

12) You are considering an investment for which you require a rate of return of 8.5 percent. The investment costs $67,400 and will produce cash inflows of $25,720 for three years. Should you accept this project based on its internal rate of return? Why or why not? 12) _____

A) No; because the IRR is 7.08 percent
B) Yes; because the IRR is 7.08 percent
C) Yes; because the IRR is 6.67 percent
D) Yes; because the IRR is 9.51 percent

13) The Black Horse is currently considering a project that will produce cash inflows of $11,000 a year for three years followed by $6,500 in Year 4. The cost of the project is $38,000. What is the profitability index if the discount rate is 9 percent? 13) _____

A) .85 B) .93 C) 1.09 D) 1.04 E) 1.12

14) You are considering an investment for which you require a rate of return of 8.5 percent. The investment costs $67,400 and will produce cash inflows of $25,720 for three years. Should you accept this project based on its internal rate of return? Why or why not? 14) _____

A) Yes; because the IRR is 6.67 percent
B) No'; because the IRR is 9.51 percent
C) Yes; because the IRR is 9.51 percent
D) Yes; because the IRR is 7.08 percent
E) No; because the IRR is 7.08 percent

15) Consider the following two mutually exclusive projects: 15) _____

Year	Cash Flow (A)	Cash Flow(B)
0	–$54,000	–$23,000
1	12,700	11,600
2	23,200	11,200
3	27,600	12,500
4	46,500	6,000

Whichever project you choose, if any, you require a rate of return of 14 percent on your investment. If you apply the payback criterion, you will choose Project _____; if you NPV criterion, you will choose Project _____; if you apply the IRR criterion, you wi Project _____; if you choose the profitability index criterion, you will choose Project _____. Based on your first four answers, which project will you finally choose?

A) B; A; B; B; A
B) A; B; A; A; B
C) B; A; B; A; A
D) A; A; B; B; A
E) A; A; B; B; B

Answer Key
Testname: PRACTICECHAPTERS7AND8

1) D
2) E
3) B
4) C
5) E
6) A
7) D
8) C
9) A
10) A
11) C
12) A
13) A
14) E
15) C