

## **MBA 3714**

**M.B.A. DEGREE EXAMINATION, JUNE 2007.**

**Third Semester**

**Finance**

**Paper XIV — PROJECT FINANCING AND  
MANAGEMENT**

**Time : Three hours**

**Maximum : 100 marks**

**PART A — ( $5 \times 6 = 30$  marks)**

**Answer any FIVE out of the following.**

1. Explain the project rating index.
2. What aspects are considered in technical analysis?
3. What are the components of cost of project?
4. Explain the rule of 69. How does it compare with the rule of 72?
5. What are the redeeming qualities of IRR?
6. Explain what is the consumer willingness to pay.
7. What steps are involved in PERT analysis?
8. Discuss the basic principle of network cost system.

**PART B — (5 × 10 = 50 marks)**

Answer any FIVE out of the following.

9. Discuss suggestions helpful in scouting for project ideas.
10. Discuss the importance of considering alternative ways of transforming an idea into a concrete project.
11. Discuss how investment appraisal is done in practice.
12. Discuss the guidelines to be borne in mind while estimating the incremental cash flows of a project.
13. Explain the procedure for determining the weighted marginal cost of capital.
14. Discuss the steps involved in decision tree analysis.
15. Discuss the procedure for determining optimal timing under conditions of certainty.
16. Discuss the procedure of CPM analysis with help of a simple example.

**PART C — (1 × 20 = 20 marks)**

Case study.

Compulsory.

17. Phoenix company is considering two mutually exclusive investments, project P and project Q. The expected cash flows of these projects are as follows :

Year	Project – P	Project – Q
0	Rs. (1,000)	(1,600)
1	(1,200)	200
2	(600)	400
3	(250)	600
4	2,000	800
5	4,000	100

- (a) Construct the NPV profiles for project P and Q.
- (b) What is the IRR of each project?
- (c) Which project would you choose if the cost of capital is 10 percent? 20 percent?
- (d) What is each project's MIRR is the cost of capital is 12 percent?