Course instructor: Sirinattha Techasiriwan

I. Introduction to Valuation and Market Efficiency

Time Value of Money Exercises

1. What will a deposit of $4,500 at 12% compounded monthly be worth at the end of 10 years? (Ans 14,852)

2. The Tried and True Corporation had earnings of $0.20 per share in 1978. By 1995, a period of 17 years, its earnings had grown to $1.01 per share. What was the compound annual rate of growth in the company's earnings? (Ans 10%)

3. Find the present value of $1,000 to be received at the end of 2 years at a 12% nominal annual interest rate compounded quarterly. (Ans 788)

4. What is the present value of an asset that generates a cash flow of $15 every year at a 15% required rate of return? (Ans 100)

5. Project A requires an initial investment outlay of Bt100mn. The project has a life of 3 years. The project is expected to generate a net cash flow Bt30mn at the end of the first year, Bt50mn at the end of the second year, and Bt80mn at the end of the third year. The average of capital invested of the project is 10%.
   1) Find the net present value (NPV) of the project. (Ans 28.7)

   2) How does the NPV impact shareholder wealth?

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End of Chapter Exercises: Chapter 1 Introduction to Valuation

1. The value of an investment is:
   a) The present value of the cash flows on the investment.
   b) Determined by investor perceptions about it.
   c) Determined by demand and supply.
   d) Often a subjective estimate, colored by the bias of the analyst.
   e) All of the above.
2. There are many who claim that value is based on investor perceptions, and perceptions alone, and that cash flows and earnings do not matter. This argument is flawed because:
   a) Value is determined by earnings and cash flows, and investor perceptions do not matter.
   b) Perceptions do matter, but they can change. Value must be based on something more substantial.
   c) Investors are irrational. Therefore, their perceptions should not determine value.
   d) Value is determined by investor perceptions, but it is also determined by the underlying earnings and cash flows. Perceptions must be based on reality.
3. You use a valuation model to arrive at a value of $15 for a stock. The market price of the stock is $25. The difference may be explained by:
   a) A market inefficiency; the market is overvaluing the stock.
   b) The use of the wrong valuation model to value the stocks.
   c) Errors in the inputs to the valuation model.
   d) All of the above.

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I. Introduction to Valuation and Market Efficiency

End of Chapter Exercises: Chapter 6 Market Efficiency

6. In an efficient market, the market price is defined to be an “unbiased estimate” of the true value. This implies that (choose one):

a) The market price is always equal to true value.

b) The market price has nothing to do with true value.

c) Markets make mistakes about true value, and investors can exploit these mistakes to make money.

d) Market prices contain errors, but the errors are random and therefore can- not be exploited by investors.

e) No one can beat the market.

7. Evaluate whether the following actions are likely to increase stock market efficiency, decrease it, or leave it unchanged, and explain why.

a. The government imposes a transaction tax of 1% on all stock transactions.

Increase efficiency ____ Decrease efficiency ____ Leave unchanged ____

Why……

b. The securities exchange regulators impose a restriction on all short sales to prevent rampant speculation.

Increase efficiency ____ Decrease efficiency ____ Leave unchanged ____

Why……

c. An options market, trading call and put options, is opened up, with options traded on many of the stocks listed on the exchange.

Increase efficiency ____ Decrease efficiency ____ Leave unchanged ____

Why……

d. The stock market removes all restrictions on foreign investors acquiring and holding stock in companies.

Increase efficiency ____ Decrease efficiency ____ Leave unchanged ____

Why……