

Session 2: Post Class tests

1. In a financial balance sheet, we break the assets of a business down into assets in place and growth assets. Which of the following is the best way of estimating the value of asset in place?
 - a. Accounting book value of assets
 - b. Market capitalization of the company
 - c. Enterprise value of the company (Market capitalization + Debt – Cash)
 - d. Applying a multiple (like EV/EBITDA) to current EBITDA
 - e. A discounted cash flow valuation of the company with no growth
2. In a financial balance sheet, we break the assets of a business down into assets in place and growth assets. Which of the following statements best describes the value of growth assets?
 - a. The value of growth assets will always be greater than zero
 - b. Companies that reinvest more (take more investments) will have a higher value for growth assets
 - c. Companies that earn a high return on capital will have more valuable growth assets
 - d. Companies that reinvest more and earn a high return on capital on those investments will have a higher value for growth assets
 - e. Companies that have high expected growth in earnings/revenues will have a higher value for growth assets
3. A company has two choices when it comes to funding its assets, debt and equity. Which of the following companies are more likely to use debt?
 - a. Money making companies will borrow more than money losing companies
 - b. Companies that are more valuable (have higher value) will borrow more.
 - c. Companies that derive the bulk of their value from assets in place and have positive earnings will borrow more
 - d. Companies that derive the bulk of their value from growth assets and have positive earnings will borrow more
4. In a corporate life cycle, we look at where firms fall in the life cycle from start-up (baby) to decline and distress (old age). Which of the following financial characteristics would you expect to see in young companies?
 - a. Mostly growth assets, primarily equity funded, high dividends
 - b. Mostly assets in place, primarily equity funded, no/low dividends
 - c. Mostly growth assets, primarily equity funded, no/low dividends
 - d. Mostly growth assets, more debt funded, no/low dividends
 - e. Mostly growth assets, more debt funded, high dividends
5. In a corporate life cycle, we look at where firms fall in the life cycle from start-up (baby) to decline and distress (old age). Which of the following financial characteristics would you expect to see in mature companies?
 - a. Mostly assets in place, primarily equity funded, high dividends
 - b. Mostly assets in place, primarily equity funded, no/low dividends
 - c. Mostly assets in place, primarily equity funded, no/low dividends

- d. Mostly assets in place, more debt funded, no/low dividends
- e. Mostly assets in place, more debt funded, high dividends