

EASTERN MEDITERRANEAN UNIVERISTY
FINA 521: INVESTMENT APPRAISAL

SAMPLE FINAL EXAM QUESTIONS

QUESTION 1

In order to appraise an investment is there any difference between considering the net replacement cost and the residual value of an asset? Please explain.

QUESTION 2

Distinguish between the annual debt service coverage ratios (ADSCR) and the loan life coverage ratio (LLCR).

QUESTION 3

When deciding on the right scale to build a project, should one keep increasing the project's scale until the internal rate of return and the net present value of the last incremental additional to scale are maximized? Please explain your answer.

QUESTION 4

- a. Why do we need to do a risk analysis when undertaking an evaluation of investment project? What are the one strength and one weakness in the use of a sensitivity analysis to evaluate the riskiness of the project?
- b. What are the main differences between a Sensitivity Analysis and a Monte Carlo Risk Analysis? How do you use the results of a sensitivity analysis to carry out a Monte Carlo Risk Analysis?
- c. In a risk analysis, what is the purpose of organizing a frequency distribution table? Where do we use it? Under what situation will you have the data to construct a frequency distribution table?

QUESTION 5

- a. How does a cost-effectiveness analysis differ from a cost-benefit analysis?
- b. What is the function of the discount rate in a cost-effectiveness analysis?
- c. Explain how a cost effectiveness analysis is used in the selection of investments in the public sector.
- d. What are some of the weaknesses of a cost-effective analysis?

QUESTION 6

- a. Explain what is meant by project monitoring? Why do you need project monitoring? What are some of the tools used in carrying out the project monitoring functions?
- b. Please give at least three reasons why an organization would want to carry out a post evaluation of a project? Please be explicit in your answer with respect to the types of benefits that post evaluation can yield for an organization.

QUESTION 7

Briefly explain why the following statements are true, false or uncertain.

1. Suppose during first one or two years of a project life, there is a decision to have larger quantities of inventories of raw materials and finishing products. This will cause the net cash flow of the project to fall during these years.
2. Suppose you are evaluating a project such as a road where the annual benefits are increasing with calendar time. The present value (PV) of investment costs to build the road is the same amount no matter when the road is built. In this case the net present value of the project will be increased if the date that the road is completed and ready for service is postponed.
3. Increases in the value of any land used by a project should always be included in the benefits of a project.
4. An Escrow Fund usually restricts the payment of dividends in order to cumulate cash for the purpose of servicing the debt of a project.
5. Suppose the LLCR is satisfactory for the entire period that the debt is outstanding. Then it must be the case that each of the annual debt service coverage ratios, ADSCR, during this period must also be satisfactory.
6. An incremental cost effectiveness ratio measures the total effectiveness of a program as compared to doing nothing.
7. Project monitoring is an activity you undertake after the project is completed.
8. To have a cost effective project monitoring system one must be monitoring as many project variables as possible.
9. A post-evaluation of a project is undertaken only to determine the final rate of return of the project.
10. The risk associated with the outcomes of a project tend to be reduced the further one forecasts the outcomes into the future.
11. A DALY and a QALY measure the same thing.