PILOT PAPER

CAPITAL & INVESTMENT

Instructions to candidates:

a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)

b) Answer ALL questions

c) Marks for each question are shown in [ ]

1. How can the firm raise cash for required capital expenditures? Small firms tend to raise funds from private investors, and venture capitalists. As these firms grow larger, they focus more on raising funds from the organised capital markets. Explain in detail why this occurs. [25]

2. Explain the terms '**risk and reward**', '**return on investment**' and '**gearing**' and then analyse the relationship between the three concepts, illustrating your answer by referring to a case study from your own country or a country with which you are familiar. [25]

3. In a world with no taxes, no transaction costs and no cost of financial distress, is the following statement true, false, or uncertain? "If a firm issues equity to repurchase some of its debt, the share price of the firm's equity will rise because the shares are less risky." Justify your decision with detailed analysis. [25]

4. In an ideal economy, net working capital is always zero. Why might net working capital be positive in a real economy? Explain in detail and justify your decision. [25]