

Study Guide for Exit Exam for Finance Majors and Minors  
Revised Fall 2023

The exit exam is given in the Advanced Financial Management (FINA40153) class. The exit exam counts as 10% of the course grade. Students graduating with a Bachelor degree in Finance should be knowledgeable of the following:

Firm Performance

- Understand agency theory, agency problem, and ways firms can minimize the agency problem
- Explain the goal of a firm and how corporate governance policies influence management's actions to achieve the goal
- Understand the uses of financial statement analysis
- Be able to construct a simple income statement and balance sheet
- Calculate the following ratios: profit margin, return on equity, return on assets, book value per share, times interest earned, total asset turnover, current ratio, quick ratio, market-to-book equity, book debt-equity ratio, EPS, P-E ratio
- Calculate the firm's capital structure weights
- Calculate the firm's weighted average cost of capital
- Be able to evaluate a project's cash flows using payback period, discounted payback period, net present value, internal rate of return, and modified internal rate of return
- Determine the impact of project value on firm value
- Be able to develop a project's cash flows
- Understand why the WACC curve is u-shaped

Time Value of Money

- Understand the concept of time value of money
- Find number of periods or interest rate for lump sum cash flow if given PV and FV
- Calculate PV or FV of a lump sum, an annuity, and an annuity due
- Find PMT, interest rate, or number of payments in annuity or annuity due problem with annual or non-annual payments
- Find the PV, PMT, or interest rate for a perpetuity
- Find PV for a growing perpetuity
- Find the PV or FV of an uneven stream of cash flows.
- Calculate the effective annual rate for an interest rate compounded more than one time per year
- Prepare a loan amortization table
- Understand the effect of time and interest rate on present and future values of a cash flow

### Risk, diversification, asset pricing

- Determine the profit or loss on a futures contract
- Understand the difference between long and short positions on securities
- Calculate beta for a portfolio of stocks.
- Explain the benefits of diversification related to portfolio return and risk
- Understand the difference between systematic and unsystematic risk.
- Know how to calculate portfolio risk, return, and beta

### Valuation

- Understand what determines value of any asset
- Determine the value and profit of a portfolio containing options
- Understand the impact of stock price, strike price, time to maturity, and volatility on option value
- Know the put-call parity relationship.
- Calculate the price of a bond with annual or semiannual payments
- Calculate the yield to maturity of a bond
- Understand the impact of time to maturity on changes in bond prices as yield changes
- Understand the difference between premium, par value, and discount bonds
- Calculate the value of common stock using the dividend growth model, market multiples, and firm's free cash flows.
- Calculate the value of common stock with non-constant dividends
- Calculate the expected return of common stock
- Calculate the cost of equity using the Capital Asset Pricing Model
- Calculate the price and expected return of preferred stock
- Calculate enterprise value

### Monetary Policy and Debt and Equity Capital Decisions

- Explain relative riskiness of bonds, preferred stock, common stock relative to claims on assets and claims on income
- Understand how to determine if the firm is operating at its optimal capital structure
- Use the Hamada equation to unlever or relever beta.
- Understand the effects of debt on firm value, cost of debt, and cost of equity
- Explain the concept of risk spread and its impact on investing.
- Explain the purpose of financial systems
- Understand the causes of bank run
- Understand aggregate demand and aggregate supply
- Explain the causes and consequences of inflation
- Understand how the yield curve is developed and what it tells an investor.
- Understand the concept of purchasing power.
- Explain bond duration