QUESTION 1

Are the following capital budgeting or financing decisions?

a. Intel decides to spend $500 million to develop a new microprocessor.

b. Volkswagen decides to raise 350 million euros through a bank loan.

c. Exxon constructs a pipeline to bring natural gas on shore from the Gulf of Mexico.

d. Pierre Lapin sells shares to finance expansion of his newly formed securities trading

firm.

e. Novartis buys a license to produce and sell a new drug developed by a biotech

company.

f. Merck issues new shares to help pay for the purchase of Medco, a pharmaceutical

distribution company.

QUESTION 2

Corporations are now required to make public the amount and form of compensation

(e.g., stock options versus salary versus performance bonuses) received by their top executives.

Of what use would that information be to a potential investor in the firm?

QUESTION 3

In order to avoid estate taxes, your rich aunt Frederica will pay you $10,000 per year for

4 years, starting 1 year from now. What is the present value of your benefactor’s planned

gifts? The interest rate is 7 percent. How much will you have 4 years from now if you

invest each gift at 7 percent?

QUESTION 4

What will be the monthly payment if you take out a $100,000 fifteen-year mortgage at

an interest rate of 1 percent per month? How much of the first payment is interest and

how much is amortization?