

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT & FINANCE

Bachelor of Business Administration in Finance (Level II – Semester VII)
Examination –July, 2017

FIN 2200 – Strategic Finance

Two (02) Hours

Answer All Questions

01.

i. Calandro and Flynn (2007) show that financial strategy has three stages. Explain those stages highlighting how to create value both internally and externally over time.

(08 marks)

ii. Al-Turki, U. (2011) recognize that the history of strategic planning indicates less success than failure in implementing strategic plans due to several reasons that are mostly referred to the development stage. However, there are a few issues that need to be taken in to consideration at the development stage for higher chances of success. State and explain those issues.

(10 marks)

iii. "Compared to the past, where the main functions of finance were to cover operational activities, today the same financial functions is to assist function of strategies. So the management has to set clear and exact financial strategies, maintaining equilibrium with the relative financial system".

Critically evaluate the above statement.

(10 marks)

iv. Overall the financial strategy of an organization is codified through the stages that include the state of how to meet the customer's preferences, the allocation of resources performance and the assessment of successes and failures due to the business. So, it seems that the financial strategy is the most oriented strategy of an organization therefore the interactions of it with other organizational strategies are encountered with high importance.

Explain the strategic financial management role in the financial success of an organization.

(10 marks)

v. "The effectiveness of the strategic planning proves and its associated financial planning techniques depend ultimately on how it influences the behaviour of managers in making strategic decisions."

Critically evaluate the above statement with clear reasons.

(12 marks)

(Total 50 Marks)

02.

i. At the firm strategic point of view, explain how it is important the relationship of financial management with other functional areas of the firm.

(10 marks)

ii. According to Alfred Rappaport (HBR September 2006) there are many ways to create shareholder value. Explain five of them.

(10 marks)

iii. If a firm attempts to maximize its stock price, is it good or bad for society? Explain your answer with reasons.

(10 marks)

(Total 30 Marks)

03.

i. You are retiring today and must choose to take retirement benefits either as a lump sum or as an annuity. Your company's benefits officer presents you with two alternatives; an immediate lump sum of Rs. 2 million or an annuity with 20 payments of Rs. 200,000 a year with the first payment starting today. The interest rate at your bank is 7%. Which option has the greater present value?

(10 marks)

ii. You are considering investing in two different instruments. The first instrument will pay nothing for three years, but then it will pay Rs. 20,000 per year for years. The second instrument will pay Rs. 20,000 for three years and Rs. 30,000 in the fourth year. All payments are made at year-end. If your required rate of return on these investments is 8%, what should you be willing to pay for:

i. The first instrument?

ii. The second instrument?

(10 marks)

(Total 20 Marks)
