Finance week 6 quiz, my answers:

(TCO D) Which of the following statements is not correct?
(a) When a corporation's shares are owned by a few individuals who own most of the stock or are part of the firm's management, we say that the firm is closely, or privately, held.
(b) Going public establishes a firm's true intrinsic value and ensures that a liquid market will always exist for the firm's shares.
(c) Publicly owned companies have sold shares to investors who are not associated with management, and they must register with and report to a regulatory agency such as the SEC.
(d) When stock in a closely held corporation is offered to the public for the first time, the transaction is called going public, and the market for such stock is called the new issue market.
(e) It is possible for a firm to go public and yet not raise any additional new capital. (Points : 20)

Spellchecker

b) Going public does not guaranty that a liquid market will always exist for the firm's shares.

Question 2.**2.** (TCO D) The City of Charleston issued $3,000,000 of 8% coupon, 30-year, semiannual payment, tax-exempt muni bonds 10 years ago. The bonds had 10 years of call protection, but now the bonds can be called if the city chooses to do so. The call premium would be 6% of the face amount. New 20-year, 6%, semiannual payment bonds can be sold at par, but flotation costs on this issue would be 2% of the amount of bonds sold. What is the net present value of the refunding? Note that cities pay no income taxes, hence taxes are not relevant.
(a) $453,443
(b) $476,115
(c) $499,921
(d) $524,917
(e) $551,163 (Points : 20)

Spellchecker

Call premium: 6%
Old rate: 8%
Floatation %: 2%
New rate: 6%
Amount: $3,000,000
Years: 20

Cost of refunding:
Call premium=6%($3,000,000) ($180,000)
Floatation cost=2%($3,000,000) ($60,000)
Total investment outlay: ($240,000)

Interest on old bond per 6 months: ($120,000)
Interest on new bond per 6 months: ($90,000)