

- Q3[a] Define leasing and explain the factors relevant in making the leasing decision. [10]
Q3[b] "Leasing is one of the important means of financing for a firm." Comment. [05]

OR

- Q3 Define leasing and explain in detail the various types of lease arrangements. [15]

- Q4[a] A company's EPS is Rs. 20 on a share of Rs. 100. It has an internal rate return of 25%. Capitalization of its risk class is 12.5%. If Walter's model is used: [07]

1. What should be the optimum payout ratio? What would be the market price at that ratio?
2. Suppose the company has a payout of 25% of EPS, What would be price per share?

- Q4[b] Explain the bird-in-the-hand argument. [08]

OR

- Q4[a] Briefly explain the internal factors affecting dividend policy decision. [08]

- Q4[b] Aagam Ltd belongs to a risk-class for which the appropriate capitalization rate is 10 per cent. It currently has outstanding 25,000 shares selling at Rs 100 each. The firm is contemplating the declaration of dividend of Rs 5 per share at the end of the current financial year. The company expects to have a net income of Rs 2.5 lakh and has a proposal for making new investments of Rs 5 lakh. Show that under the MM assumption, the payment of dividend does not affect the value of the firm. [07]

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