UNIT – III: PROJECT FINANCE

1) The Pay Back Period method is used to determine:

- A) Profitability
- B) Liquidity of investment
- C) Cost of capital
- D) Risk factor

Answer: B

2) Net Present Value (NPV) is calculated by:

- A) Adding future cash flows without discounting
- B) Subtracting initial investment from discounted cash inflows
- C) Dividing profit by investment
- D) Multiplying cash flows by interest rate

Answer: B

3) Internal Rate of Return (IRR) is the discount rate at which:

- A) Profit is maximum
- B) Cost is minimum
- C) NPV becomes zero
- D) Cash flow is highest

Answer: C

4) Profitability Index (PI) is:

- A) Initial Investment / PV of Inflows
- B) PV of Inflows / Initial Investment
- C) Profit / Cost
- D) Cost / Profit

Answer: B

5) Cost of Capital refers to:

- A) Cost of machinery
- B) Cost of labor
- C) Required rate of return on investment
- D) Cost of materials

Answer: C

6) Which method considers the time value of money?

- A) Pay Back Period
- B) Accounting Rate of Return
- C) NPV
- D) Average Profit Method

Answer: C

7) Accounting Rate of Return (ARR) is based on:

- A) Cash flows

- B) Accounting profits
- C) Present values
- D) Market value

  Answer: B

8) Risk analysis in project finance helps to:

- A) Increase taxes
- B) Identify uncertainties
- C) Reduce production
- D) Increase labor

  Answer: B

9) Cash flow estimation is important because:

- A) It determines project viability
- B) It increases project cost
- C) It reduces project duration
- D) It eliminates risk

  Answer: A

10) A project is generally accepted when:

- A) NPV < 0
- B) PI < 1
- C) IRR > Cost of Capital
- D) ARR = 0

  Answer: C

11) Which method ignores time value of money?

- A) NPV
- B) IRR
- C) Pay Back Period
- D) PI

  Answer: C

12) Risk analysis helps in:

- A) Identifying project uncertainties
- B) Eliminating project costs
- C) Increasing profits
- D) Reducing manpower

  Answer: A

13) NPV greater than zero indicates:

- A) Rejection of project
- B) Acceptance of project
- C) No profit
- D) Loss only

  Answer: B

14) ARR is expressed as:

- A) Ratio
- B) Percentage
- C) Currency
- D) Time

Answer: B

15) Which technique is a discounted cash flow method?

- A) ARR
- B) Pay Back Period
- C) NPV
- D) Average Cost

Answer: C

16) Project finance mainly deals with:

- A) Resource allocation
- B) Financial viability
- C) Team motivation
- D) Quality assurance

Answer: B

17) Replacement projects involve:

- A) New investments only
- B) Replacing existing assets
- C) Marketing activities
- D) Training employees

Answer: B

18) The primary objective of project evaluation is:

- A) Determine project feasibility
- B) Increase manpower
- C) Delay project execution
- D) Reduce planning

Answer: A

19) Which is not a project evaluation technique?

- A) NPV
- B) IRR
- C) CPM
- D) ARR

Answer: C

20) Higher risk generally requires:

- A) Lower return
- B) Higher return
- C) No return
- D) Fixed return

Answer: B