**Daffodil International University (DIU)**
Faculty of Business & Entrepreneurship
Department of Business Administration
Program: BBA
Summer 2026
Mid Term Examination
Title of the Course: **Advanced Financial Theory and Practice** (**0412-325**)

Points: **25** Time: **90 Minutes**

[**Instructions**: Answer all the questions. The figures the in the right margin indicate the points of each question. Maintain the sequence of all parts of each question. Be specific while answering the questions.]

**Group A:** **09**

| | | | |
|---|---|---|---|
| **Q.1.** | **Differentiate** between (i) accounting profit and economic profit by highlighting respective equations, and (ii) positive and normative views in finance. | **CLO1 L02** | **03** |
| **Q.2.** | The internal rate of return (IRR) rule has several shortcomings relative to the net present value (NPV) approach. **Interpret** these shortcomings and **demonstrate** how the NPV deals with them. | **CLO1 L02** | **03** |
| **Q.3.** | **Discuss** the 'evolution of finance theories' by highlighting three influential theories. | **CLO1 L03** | **03** |

**Group B:** **06**

| | | | |
|---|---|---|---|
| **Q.4.** | "We are clearly better off when capital markets exist" - **justify** the statement by displaying and explaining relevant graphs. | **CLO3 L05** | **06** |

**Group C:** **10**

**Q. 5.** Suppose you are a financial analyst and you have been provided with the following data of one of the client firms that faces three projects. The firm is interested in using the required rate of return of 5 percent for discounting the cash flows. **CLO3 L05**

| | Amounts are in Tk. | | |
|---|---|---|---|
| Year | Project X | Project Y | Project Z |
| 0 | -100,000 | -15,000 | -70,000 |
| 1 | 40,000 | 20,700 | 50,000 |
| 2 | 45,000 | 25,700 | 60,000 |
| 3 | 35,000 | | 40,000 |
| 4 | 45,000 | | |

**Requirements:**

a) **Estimate** the NPV of the projects. **02**

**01**

b) Assuming the projects are mutually exclusive and there is no capital constraint, which project should be selected? **Justify** your answer based on shareholders' wealth maximization goal. 02

c) Suppose the firm has a capital constraint of Tk.120,000 and the projects become independent. **Evaluate** each of the projects and **choose** the project (s) that you want to select. 01

d) Suppose the firm has a capital constraint of Tk.120,000 and the projects become mutually exclusive. **Evaluate** each of the projects 02
and **select** the best one for you. 02

e) **Estimate** the NPV (N, α) of each project.

f) **Measure** the annual equivalent value of each project.