Final A; Summer 2013

Short Answer

1. initial cash flow too low, interest rate too high, growth rate too low, number of payments too low

+8/+4/+2/+1

2. revenues too low, expenses too high, depreciation too low, tax rate too high, change in net working capital too high, capital expenditures too high

+6/+3/+2/+2/+1/+1

3. standard deviation of market too low, correlation between return on stock & market too ~~low~~ high, standard deviation of stock too ~~low~~ high

or

covariance between return on stock & market too ~~low~~ high

+8/+7

4. Strike price too low, stock price too high

+8/+7

5. Strike price too low, stock price too high, standard deviation too low, time to expiration too low

+8/+4/+2/+1