Par Co currently has the following long-term capital structure:

	$m	$m
Equity finance		
Ordinary shares	30.0	
Reserves	38.4	
		68.4
Non-current liabilities		
Bank loans	15.0	
8% convertible loan notes	40.0	
5% redeemable preference shares	15.0	
		70.0
Total equity and liabilities		138.4

The 8% loan notes are convertible into eight ordinary shares per loan note in seven years' time. If not converted, the loan notes can be redeemed on the same future date at their nominal value of $100. Par Co has a cost of debt of 9% per year.

The ordinary shares of Par Co have a nominal value of $1 per share. The current ex-dividend share price of the company is $10.90 per share and share prices are expected to grow by 6% per year for the foreseeable future. The equity beta of Par Co is 1.2.

16. The loan notes are secured on non-current assets of Par Co and the bank loan is secured by a floating charge on the current assets of the company.

In terms of risk to the investor, what are the riskiest and least risky sources of finance for Par Co?

	Riskiest	Least risky
A	Redeemable preference shares	Bank loan
B	Ordinary shares	Bank loan
C	Bank loan	Loan notes
D	Ordinary shares	Loan notes

17. What is the conversion value of the 8% loan notes of Par Co after seven years?

A $16.39

B $111.98

C $131.12

D $71.72

18. Assuming the conversion value after seven years is $126.45, what is the current market value of the 8% loan notes of Par Co?

A $115.20

B $109.26

C $94.93

D $69.00

19. Which of the following statements relating to the capital asset pricing model is correct?

A The equity beta of Par Co considers only business risk

B The capital asset pricing model considers systematic risk and unsystematic risk

C The equity beta of Par Co indicates that the company is more risky than the market as a whole

D The debt beta of Par Co is zero

20. Which of the following statements are problems in using the price/earnings ratio method to value a company?

(1) It is the reciprocal of the earnings yield

(2) It combines stock market information and corporate information

(3) It is difficult to select a suitable price/earnings ratio

(4) The ratio is more suited to valuing the shares of listed companies

A 1 and 2 only

B 3 and 4 only

C 1, 3 and 4 only

D 1, 2, 3 and 4