EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: Perfect Machinery is investing $400 million in new industrial equipment. The present value of the future after-tax cash flows resulting from the equipment is $700 million.

Perfect Machinery currently has 200 million shares of common stock outstanding, with a relevant current market price of $36 per share.

Assuming that this project is new information and is independent of other expectations about the company, what is the theoretical effect of the new equipment on Perfect's stock price?

The stock price will?

ⓐ decrease to $34.00

ⓑ increase to $37.50

ⓒ increase to $39.50

CFA Society Hong Kong
Candidate Services

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Candidate Services Committee

Date of issue:
1 Jan 2024