

PRACTICE QUESTIONS

Project Finance

1. What is project finance primarily based on? (1 Marks)
 - A. Government funding
 - B. Projected cash flows and project assets
 - C. Personal investments
 - D. Charitable donations

Answer: B) Projected cash flows and project assets

2. Before the economic liberalization in the 1990s, which sector primarily funded infrastructure projects in India? (1 Marks)
 - A. Private sector
 - B. Public sector
 - C. Non-profit organizations
 - D. Multinational corporations

Answer: B) Public sector

3. Which of the following projects involves establishing a new operation on undeveloped land? (1 Marks)
 - A. Brown-field project
 - B. Green-field project
 - C. Expansion project
 - D. Diversification project

Answer: B) Green-field project

4. What is a key characteristic of a brown-field project? (1 Marks)
 - A. It is set up on completely undeveloped land.
 - B. It involves constructing all necessary infrastructure from scratch.
 - C. It is developed in an area that has already been utilized for commercial purposes.
 - D. It poses the highest level of risk among project types.

Answer: C) It is developed in an area that has already been utilized for commercial purposes.

5. In which type of project does the promoter lack prior experience as a business owner? (1 Marks)
- A. Diversification project
 - B. New entrepreneur project
 - C. Expansion project
 - D. Modernisation project

Answer: B) New entrepreneur project

6. What is the main risk associated with diversification projects? (1 Marks)
- A. High construction costs
 - B. Lack of market acceptance for new products
 - C. Regulatory compliance issues
 - D. Insufficient funding

Answer: B) Lack of market acceptance for new products

7. Which type of diversification occurs when a company enters a market closely linked to its current operations? (1 Marks)
- A. Unrelated diversification
 - B. Related diversification
 - C. Horizontal diversification
 - D. Vertical diversification

Answer: B) Related diversification

8. In an expansion project, the risk is considered to be: (1 Marks)
- A. Higher than in diversification projects
 - B. Relatively lower compared to diversification projects
 - C. Non-existent
 - D. Always very high

Answer: B) Relatively lower compared to diversification projects

9. Which of the following is a benefit of conducting market analysis by oneself? (1 Marks)
- A. It guarantees project success
 - B. It is more expensive than hiring a professional

- C. It allows the promoter to gain insights and contacts
- D. It requires no expertise

Answer: C) It allows the promoter to gain insights and contacts

10. What is one of the limitations of conducting market analysis by a promoter? (1 Marks)
- A. It provides an objective viewpoint
 - B. The promoter may overlook critical risks due to excitement
 - C. It is less time-consuming
 - D. It requires no financial investment

Answer: B) The promoter may overlook critical risks due to excitement

11. What is the primary difference between primary and secondary research? (1 Marks)
- A. Primary research is cheaper than secondary research
 - B. Secondary research is more time-consuming than primary research
 - C. Primary research involves collecting new data, while secondary research uses existing data
 - D. Secondary research is only qualitative, while primary research is quantitative

Answer: C) Primary research involves collecting new data, while secondary research uses existing data

12. What does a promoter's track record help investors assess? (1 Marks)
- A. The financial outcomes of their previous businesses only.
 - B. Their ability to manage financial stress.
 - C. Their strengths and potential areas of improvement.
 - D. The number of employees they have managed.

Answer: C) Their strengths and potential areas of improvement.

13. Why is understanding a promoter's integrity important? (1 Marks)
- A. It affects the company's profitability.
 - B. It influences the project's financial standing.
 - C. It ensures sustainability and trustworthiness in business dealings.
 - D. It has no real significance.

Answer: C) It ensures sustainability and trustworthiness in business dealings.

14. What is one way to assess a promoter's financial standing? (1 Marks)
- A. By examining their marketing strategies.
 - B. By studying the balance sheets of their promoting companies.
 - C. By evaluating their customer service policies.
 - D. By assessing their product quality.

Answer: B) By studying the balance sheets of their promoting companies.

15. What are project specifications primarily concerned with? (1 Marks)
- A. The marketing strategy of a business.
 - B. The resources and infrastructure needed to implement a business model.
 - C. The financial performance of a company.
 - D. The hiring policies of a company.

Answer: B) The resources and infrastructure needed to implement a business model.

16. In project specifications, what does growth planning involve? (1 Marks)
- A. Reducing costs to minimize initial investment.
 - B. Planning for scalability to accommodate future expansion.
 - C. Focusing solely on immediate profits.
 - D. Disregarding the initial resource commitment.

Answer: B) Planning for scalability to accommodate future expansion.

17. Why might a school opt for phased growth in its expansion model? (1 Marks)
- A. To maximize its initial investment.
 - B. To avoid the impracticality of purchasing land each year.
 - C. To limit its student enrollment.
 - D. To focus solely on kindergarten classes.

Answer: B) To avoid the impracticality of purchasing land each year.

18. What is the primary reason private sector companies choose to implement a project? (1 Marks)

- A. Social responsibility
- B. Financial viability
- C. Government regulations
- D. Research and development

Answer: B) Financial viability

19. Which of the following is NOT a factor considered in project feasibility analysis? (1 Marks)
- A. Emission control regulations
 - B. Corporate Social Responsibility (CSR) activities
 - C. Market demand
 - D. Personal preferences of the management

Answer: D) Personal preferences of the management

20. What is included in the cost of the project according to Chapter 6? (1 Marks)
- A. Only the construction costs
 - B. The cost of materials only
 - C. Investment in working capital
 - D. Operating expenses only

Answer: C) Investment in working capital

21. What does the Interest Coverage Ratio (ICR) measure? (1 Marks)
- A. The project's total revenue
 - B. The project's ability to meet interest payments
 - C. The project's profitability
 - D. The project's total liabilities

Answer: B) The project's ability to meet interest payments

22. What does the Long-Term Debt Service Coverage Ratio (LDR) assess? (1 Marks)
- A. The project's ability to generate equity
 - B. The project's ability to meet long-term debt obligations
 - C. The interest rates of the debt

D. The company's total sales

Answer: B) The project's ability to meet long-term debt obligations

23. In sensitivity analysis, how many parameters can typically be assessed at one time in a single table? (1 Marks)

A. One

B. Two

C. Three

D. Four

Answer: B) Two

24. What are common names for scenarios in financial projections? (1 Marks)

A. Good, Bad, Ugly

B. Optimistic, Pessimistic, Average

C. High, Medium, Low

D. Best, Worst, Moderate

Answer: B) Optimistic, Pessimistic, Average

25. Which government body is responsible for approving and reviewing infrastructure projects? (1 Marks)

A. Ministry of Finance

B. Planning Commission

C. Cabinet Committee on Infrastructure

D. Central Electricity Regulatory Commission (CERC)

Answer: C) Cabinet Committee on Infrastructure