Session 1: Post Class tests

1. Valuation is a skill set that is necessary only for
   a. Investment bankers who may want to assess the value of acquisitions or IPOs
   b. Management consultants who want to provide good corporate finance advice
   c. CFOs who want to understand what drives the value of their businesses
   d. Investors who want to find cheap and expensive stocks
   e. Entrepreneurs who have to negotiate with buyers and VCs about the values of their businesses
   f. All of the above

2. When you value assets, you are implicitly assuming that
   a. The market is always right
   b. The market is always wrong
   c. The market is sometimes wrong, but that it corrects itself eventually
   d. The market is sometimes wrong, and that it does not correct itself eventually
   e. None of the above

3. The biggest enemy of good valuation is bias. To minimize bias in valuation, you should
   a. Read/review what other people think about the value of a company
   b. Meet with the management of the company
   c. Look at the market price
   d. Get paid more to do the valuation
   e. None of the above

4. You are valuing two companies. Company A is a mature company, with a long and stable history. Company B is a young, start-up with substantial uncertainty about the future and little history. Which of the following statements would you subscribe to?
   a. I will be able to value Company A less precisely than Company B, and there will be a bigger payoff to valuing Company B.
   b. I will be able to value Company A more precisely than Company B, and there will be a bigger payoff to valuing Company A.
   c. I will be able to value Company A less precisely than Company B, but there will be a bigger payoff to valuing Company A.
   d. I will be able to value Company A more precisely than Company B, but there will be a bigger payoff to valuing Company B.

5. What type of investor will get the biggest payoff from using intrinsic valuation?
   a. An investor with a short time horizon that believes that markets are always wrong.
   b. An investor with a long time horizon that believes that markets are always wrong.
   c. An investor with a short time horizon that believes that markets make mistakes on pricing but that they correct them over time.
d. An investor with a long time horizon that believes that markets make mistakes on pricing but that they correct them over time.

e. An investor that believes that markets are always right.

6. Which of the following assets is best suited for relative valuation?
   a. An untraded, unique asset with nothing comparable or similar to it.
   b. A traded, unique asset with nothing comparable or similar to it.
   c. An asset that is similar to other assets, none of which have traded prices.
   d. An asset that is similar to other assets, many of which are traded at regular intervals.
   e. None of the above

7. One argument that is used by those who use multiples/relative valuation is that there are fewer assumptions in relative valuation than in intrinsic valuation. Is this true or false?
   a. True
   b. False
c. **Session 1: Post Class tests (Solutions)**

1. f. All of the above. Everybody needs to have a grasp of valuation.
2. c. The market is sometimes wrong, but that it corrects itself eventually. You need the market to make mistakes for your valuation to have a chance, but you need the market to correct its mistakes, if you want to make money.
3. e. None of the above. All of the actions will only add to the bias.
4. d. I will be able to value Company A more precisely than Company B, but there will be a bigger payoff to valuing Company B. With its long and stable history, you should be able to value company A more precisely, but so will everyone else. You will value Company B less precisely, but most people will give up. Your payoff will be greater with Company B.
5. d. An investor with a long time horizon that thinks that markets are wrong at points in time but that they correct themselves over time. If markets are always wrong, you will not make any money on your intrinsic valuation and you need a long time horizon to improve your odds of markets correcting themselves.
6. d. An asset that is similar to other assets, many of which are traded. You need similar assets for the comparison and the trading for the prices on these assets.
7. b. False. You may make fewer explicit assumptions but you ultimately make the remaining assumptions implicitly. Put differently, the number of assumption embedded in both approaches is the same, but you may make judgments on fewer of them.