ABC University wishes to set up an endowment to fund research into the financial markets and is approaching wealthy investors for donations. ABC has determined that it needs S$500,000 per year to be able to carry out its research. It has also calculated that the costs of research will increase by 2.5% per annum. The research will commence from the end of Year 3 and if market interest rates are 5% how much does ABC need to raise from investors to set up the endowment? (20 marks)

Punggol Bakery is expected to generate earnings per share (“EPS”) of S$4.80 in the upcoming year. At present, the company has not identified any profitable investment opportunities so it decides to pay out all earnings as dividends. Based on this analysis, Punggol Bakery is currently trading at S$25.55 per share. However, a new Chief Financial Officer is hired and they can source profitable opportunities for the company to pursue. They believe that another bakery can be set-up in Sengkang which will deliver a return of 14.5%. However, in order to fund this Punggol Bakery will have to retain earnings of 40%. By deciding to invest in the new bakery, what effect would this have on Punggol Bakery’s share price? (20 marks)