



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FOURTH YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF COMMERCE**

COURSE CODE: BCM 4114

COURSE TITLE: FINANCIAL ECONOMICS

DATE: 1st APRIL 2022

TIME: 08.30 - 10.30AM

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 3 printed pages. Please turn over

QUESTION ONE

(a) The practice of corporate finance involves five basic functions. Discuss these functions. **(10mks)**

(b) The process of indirect finance is faced with various challenges. Discuss these challenges and highlight how financial intermediaries help in solving them. **(10mks)**

(c) With illustrations, explain the difference between stockholder and stakeholder **(5mks)**

QUESTION TWO

(a) As an investor, what variables in your firm should your corporate manager concentrate on? **(7mks)**

(b) The cash inflow on a particular project is given below

Year	Cash outflow in KSh	Cash inflow in KSh
0	200,000	-
1	60,000	20,000
2		50,000
3		70,000
4		100,000
5		60,000

The salvage value at the end of the 5th year is KSh. 20,000. The cost of capital is discounted at 12%. Calculate the net present value of the project **(8marks)**

QUESTION THREE

(a) Given; $FV_n = PV \times (1 + i)^n$, solve for the number of years **(7marks)**

(b) Discuss the functions of financial markets in the economy **(8marks)**

QUESTION FOUR

(a) You agree to receive Ksh. 80,000 at the end of every year for 6 years in an investment fund that earns 12.5 percent interest.

- i. How much should someone offer you now to make you at least as good as earning from the investment fund **(4mks)**
- ii. Will a perpetuity with similar terms make you better off or worse off? (show your work clearly) **(4mks)**

(b) Discuss the significance of financial economics in the business world today **(7mks)**

QUESTION FIVE

(a) Using mathematical illustration, prove that the capital structure that maximizes firm value is also the one that most benefits the interests of the stockholders. **(8mks)**

(b) Suppose you are involved in a project that uses environmentally sensitive chemicals. It may cost you a great deal to dispose of them. And that will mean negative cash flow at the end of the project. Suppose your project has a cash flow as follows:

Period	End of period cash flow (US\$)
0	-100
1	260
2	260
3	-490

What is this project's IRR?

(7marks)

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