



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

**SCHOOL OF BUSINESS AND ECONOMICS
MASTER OF BUSINESS ADMINISTRATION**

COURSE CODE: MBA 8101

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 2/2/ 2024

TIME: 1100-1300 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **TWO Questions**

This paper consists of 4 printed pages. Please turn over.

Question one

a) Critically evaluate five importance of financial management. **(5 marks)**

b) Discuss the agency problem. **(5 Marks)**

c) Highlight the various measures that would minimize agency problems between the owners and the management. **(5 marks)**

d) An Entrepreneur in Narok had the following scenario as at 31st January, 2024 for its Nth projects.

Year 1		Year 2	
Cashflow	Probability	Cashflow	Probability
60,000	0.3	70,000	0.3
		60,000	0.5
		60,000	0.2
80,000	0.2	100,000	0.3
		80,000	0.5
		60,000	0.2
100,000	0.3	120,000	0.3
		100,000	0.5
		80,000	0.2
90000	0.2	70,000	0.2
		60,000	0.3
		50,000	0.5

Required:

i. Ascertain the Expected Monetary Value (EMV). **(7 marks)**

ii. Ascertain the Expected Net Present Value (ENPV) using 13% discount rate with initial investment of Sh. 100,000. **(8 marks)**

Question two

a) Explain why mergers and acquisitions may fail to work in some cases. **(6 marks)**

- b) Discuss three factors affecting dividend policy of a firm. **(6 marks)**
- c) Define the following terminologies as used in capital budgeting:
- i) Independent projects **(1 mark)**
 - ii) Conventional cash flow projects **(1 mark)**
 - iii) Economic value added **(1 mark)**

Question three

- a) With relevant illustrations discuss: -
- i. Systematic risk **(2 marks)**
 - ii. Unsystematic risks **(2 marks)**
 - iii. Bonus shares. **(2 marks)**
 - iv. Rights issues **(2 marks)**
- b) Explain the following terms:
- i. Operating lease. **(2 marks)**
 - ii. Financial Lease. **(2 marks)**
 - iii. Sale and lease back. **(3 marks)**

Question four

- a) Shareholders of XY PLC expect dividend flows and capital gains as their return on investment. As a financial manager of XY PLC, one of your responsibility is to develop a dividend policy of the company. Using appropriate illustrations, discuss the following dividend models.
- i. Dividend relevance: Walter's Model. **(2 marks)**
 - ii. Dividend relevance: Gordon's Model. **(2 marks)**
 - iii. Bird-in-the-hand. **(2 marks)**
 - iv) Miller-Modigliani Hypothesis. **(3 marks)**
- b) Discuss the following.
- i. Profit maximization. **(3 marks)**
 - ii. Shareholders wealth maximization. **(3 marks)**

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