



W1-2-60-1-6

JOMO KENYATTA UNIVERSITY OF AGRICULTURE & TECHNOLOGY
UNIVERSITY EXAMINATION 2016/2017
EXAMINATIONS FOR THE DEGREE IN BACHELOR OF COMMERCE
HBF 2306: PROJECT APPRAISAL

DATE: DECEMBER 2016

TIME 2 HOURS

INSTRUCTIONS: Answer question one and any other two

QUESTION ONE

(30 MARKS)

- a) Discuss the merits & demerits (advantages & disadvantages) of real option analysis (4 Marks)
- b) Discuss the Steps in constructing decision tree (4 Marks)
- c) Outline the Coventional techniques for project risk analysis (4 Marks)
- d) Discuss the merits & demerits Decision Rule (4 Marks)
- e) Suppose that JAMIA company can issue debt with a yield 8%. If JAMIA company marginal tax rate is 60%, what is its cost of debt (4 Marks)
- f) Briefly discuss the Modified Internal Rate of Return Decision Rule (3 Marks)
- g)
 - i. State the three major assumptions in sensitivity analysis (3 Marks)
 - ii. State the limitations of sensitivity analysis (4 Marks)

QUESTION TWO**(20 MARKS)**

- a) Outline six statistical techniques for risk analysis in project (6 Marks)
- b) Pila ltd has identified the following projects for possible investment. The net present value of the project are as follows.

projects	benefits	costs
A	25,000,000	15,000,000
B	2,000,000	500,000
C	5,000,000	1,000,000
D	35,000,000	15,000,000
E	25,000,000	25,000,000

There is a limit on the capital expenditure budget of only Ksh. 15 Million.

Required: advice the management whether the project to be funded or not. All calculations should be clearly shown. (14 Marks)

QUESTION THREE**(20 MARKS)**

- a) Discuss the types of Real Options (6 Marks)
- b) Briefly discuss the term Discounted Payback Period. Hence List the Advantage and Disadvantages (6 Marks)
- c) Briefly discuss the term Net Present Value. Hence List the Advantage and Disadvantages (8 Marks)

QUESTION FOUR**(20 MARKS)**

- a) Briefly discuss the term Pay Back Period (PBP). Hence list the two methods of calculating the PBP (6 Marks)
- b) Discuss the merits & demerits Simulation analysis (7 Marks)
- c) Consider the Plum Computer Company that currently pays an annual dividend of \$2.00 per share. Plum's common stock has a current market value of \$25 per share. If Plum's annual dividends are expected to grow at 5% per year, what is its cost of common stock? (7 Marks)

