

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 3 SEMESTER II EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBF 2306: PROJECT APPRAISAL**

**DATE: APRIL 2015 TIME: 2 HOURS**

**INSTRUCTIONS: Answer Question One and Any Other Two Questions**

**QUESTION ONE**

1. What is project appraisal? (2marks)
2. Briefly explain the five characteristics of a project. (10marks)
3. What are the demerits of the payback period as a project appraisal approach criteria? (5marks)
4. How significant is the project appraisal process to initiators and designers of a project? (6marks)
5. Briefly explain how organizations can get the project appraisal process right. (5marks)
6. What do you understand by feasibility study? (2marks)

**QUESTION TWO (20 marks)**

1. Briefly explain the underlying reasons to investors’ preference for receipt of cash now rather than in future. (8marks)
2. How significant is a project financial plan to a project manager? (8marks)
3. Distinguish between mutually exclusive and independent projects. (4marks)

**QUESTION THREE (20 marks)**

1. “Prior to investment in a foreign country a company should be able to ascertain how it can manage political risk”. In view of the above statement;
2. What issues should the company consider in political risk management? (8marks)
3. How can a foreign company handle the political risk problem in the lifetime of the project? (4marks)
4. Briefly discuss the four major strategies that can be embraced to minimize the impact of nationalization (8marks)

**QUESTION FOUR (20 marks)**

A project has the following cash flows:

Year Cash flows (sh’000’)

1 300

2 400

3 700

4 900

The cost of the project is sh1,500,000

1. Compute the project’s IRR (18marks)
2. State whether the project should be accepted if the opportunity cost of capital is 18%. (2marks)

**QUESTION FIVE (20 marks)**

1. What is an efficient market? (1marks)
2. What are the assumptions of the efficient market hypothesis? (10marks)
3. Distinguish the various forms of market efficiency from an informational point of view. (9marks)