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

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

# **UNIVERSITY EXAMINATIONS 2014/2015**

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBF 2404 : COMPARATIVE ISSUES IN FINANCIAL MANAGEMENT**

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

**INSTRUCTIONS:**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE**

1. Highlight the weaknesses of portfolio theory [6 marks]
2. What are the assumptions of capital assets of pricing model [6 marks]
3. Explain the types of mergers below
4. Horizontal mergers
5. Vertical mergers
6. Conglomerate mergers [6 marks]
7. Explain the types of financial reconstructions [4 marks]
8. What are the applications of Z ……………………………….[4 marks]
9. From the following estimates the rate of growth among the historical estimate method

Year EPS

1 0.53

2 0.43

3 0.37

4 0.26

5 0.25

6 0.18 [4 marks]

[total 30 marks]

**QUESTION TWO**

1. Explain carefully the capital asset pricing model (CAMP) [6 marks]
2. Under CAPM systematic risk is measures using beta (β) factor of the security returns. Give the interpretation of the following .

β= 0.98

β= 1.39 [4 marks]

1. When probability distribution is affected to the return of market and individual security, show how beta is computed. [4 marks]
2. The possible returns of security is and market returns under three possible states of nature are as follows;

Prob never re……....(m) % security ……..

0.2 15 10

0.5 13 16

0.3 13 30

The risk free rate is 9% . determine the required rate of return of securities I and state whether its correctly valued [6 marks]

[total 20 marks]

**QUESTION THREE**

1. Highlight the advantages of merger as an expansion strategy [8 marks]
2. Describe management buyers (MBO) and highlight the three factors to a MBO [4 marks]
3. What are the reasons for a managerial buy out [8 marks]

[total 20 marks]

**QUESTION FOUR**

1. Athman researched the multinational approach to predicting business failure by using a number of variables for failed and non failed companies. Outline the five key indicators used to derive Athman’s Z score model. [10 marks]
2. The following variables were observed for a company Y

X1 =0.16

X2 =0.10

X3 =0.05

X4 =1.10

X5 =1.40

Calculate Z score for this company and assess whether the company is risky [10 marks]

**QUESTION FIVE**

1. Discuss the limitations of capital Assets pricing model [10 marks]
2. Differentiate between portfolio theory and CAPM [10 marks]