



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY POSTGRADUATE EXAMINATION

2017/2018 ACADEMIC YEAR

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR MASTER OF
BUSINESS ADMINISTRATION (FINANCE OPTION)**

BCF 631: CORPORATE FINANCE

DURATION: 3 HOURS

DATE: 20TH AUGUST, 2018

TIME: 2.00 – 5.00 P.M.

Instructions to Candidates:

1. Answer **Any Four** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

QUESTION ONE

- a) Describe the traditional view of capital structures and its assumptions (10 marks)
- b) Discuss the factors that will influence a company's capital structure decisions (15 marks)

Hint both theoretical and empirical evidence.

QUESTION TWO

You have been approached by a firm that is organizing a seminar on financial systems. This firm tasks you to make a presentation on financial systems in Kenya.

Required:

- a) In your presentation explain the functions of financial systems in Kenya (15 marks)
- b) Explain the meaning of financial assets, intermediaries and markets (10 marks)

QUESTION THREE

- a) Discuss the role of main actors That regulate the financial actors in Kenya (15 marks)
- b) Explain the key factors driving growth in Kenya's financial services sector in Kenya in the last 15 years (10 marks)

QUESTION FOUR

A company is considering acquiring a new facility to engage transport business. They have 20 options of financing the acquisition as follows:

Option 1

Acquire the vehicle whose current cost price is Sh.48,000,000 through a lease finance from A Ltd. The terms of lease require four equal payments per year for each of the three years. No deposit shall be required.

Option 2

Obtain the facility through a bank loan scheme that's being advertised in national newspaper. In this arrangement, the company will be required to make a down payment of 18,000,000 and then make four equal payments yearly. The market rate of interest is 16% per annum.

Required:

- a) The finance lease to be provided by the company (8 marks)
- b) The present value of payment scheme of the bank (9 marks)
- c) The interest expense charged by A Ltd in the third installment (8 marks)

QUESTION FIVE

- a) Differentiate between real and financial options (12 marks)
- b) Explain the process of valuing resource options. (13 marks)

Hint: Use input and estimation process