

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

DEVELOPMENT FINANCE (BS 245)

DURATION: 3 HOURS

JUN 2024

INSTRUCTIONS TO CANDIDATES

1. Answer any **four** questions altogether.
2. All questions carry 25 marks each.
3. Candidates are allowed to use a non-programmable calculator.
4. Start answering each question on a new page.

QUESTION ONE

- a) WeKnit Ltd. is considering a replacement project. This type of project requires a return of risk free rate plus 4%.

Original cost		Cash inflows			
		Years 1-5		Years 6-10	
Probability	Amount	Probability	Amount	Probability	Amount
0.30	13 000	0.20	2 000	0.20	2 600
0.40	14 000	0.40	2 400	0.60	3 200
0.30	15 000	0.30	2 800	0.10	3 400
		0.10	3 400	0.10	3 600

- If the risk free rate is 10% determine the risk adjusted NPV and advice. (15)
- b) Compare and contrast the **IRR** and **NPV** approaches to capital project appraisal. Which in your opinion is the better of the two techniques and why? (10)
- [25 marks]**

QUESTION TWO

It is argued that national debts and balances of payment (BOPs) are some of the challenges constraining the growth and development of most emerging economies. Discuss this notion with specific reference to Zimbabwe.

[25 marks]

QUESTION THREE

High-frequency trading uses complex algorithms to analyze multiple markets and execute orders based on market conditions. Typically, the traders with the fastest execution speeds will be more profitable than traders with slower execution speeds. As of 2009, it is estimated more than 50% of exchange volume comes from high-frequency trading orders.

Should High Frequency Trading be allowed in the financial market? What is the long term impact on society and its investors? [25 marks]

QUESTION FOUR

Discuss the major sources of finance for growth and development of nations. [25 marks]

QUESTION FIVE

WeFarm Ltd. is a corporation that is listed on the Zimbabwe Stock Exchange (ZSE). The company is considering two capital projects A and B below, each requiring an initial capital investment of \$250 million to commence and promising the following after-tax cash flows at the end of the next five years:

(\$000)						
Period (in years)	0	1	2	3	4	5
Project A	(250 000)	100 000	100 000	100 000	100 000	100 000
Project B	(250 000)	40 000	60 000	100 000	150 000	150 000

Evaluate the two competing projects that the company faces using:

- The net present value (NPV) appraisal method using a 15% cost of capital. (7)
- The Internal Rate of Return (IRR) appraisal method. (10)
- Comment on the criteria used when evaluating capital projects using the NPV and IRR investment appraisal methods. (5)
- Appraise the two projects based on your findings above. (3)

[25 marks]

QUESTION SIX

Discuss the impact of sanctions on economic growth and development.

[25 marks]

END OF EXAMINATION

Appendix 1

Discounting factors at:

Year	15%
1	0.869
2	0.756
3	0.657
4	0.571
5	0.497