

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

DEVELOPMENT FINANCE (BS 245)

DURATION: 3 HOURS

MAR 2023

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) Compare and contrast the certainty equivalent and risk adjusted discount rate approaches to risk adjustment. Which in your opinion is the better of the two technique and why? (15)
- b) A company is analyzing a project which requires adjustment for risk using the **certainty equivalent method**. Given below are the cash flows and associated certainty equivalent efficient.

Year	Cash flow (\$)	α
0	(100 000)	1
1	40 000	0.95
2	45 000	0.90
3	50 000	0.80
4	30 000	0.80

The risk free rate is 15%
Certainty equivalent coefficient (α)

Required

Advise the company.

(10)

[25 marks]

QUESTION TWO

- a) Three projects have been suggested to a company. The after-tax cash flows for each are tabulated below. If the firm's cost of capital is 12% rank the projects in order of profitability.

After tax cash flows			
Time	Project A (\$)	Project B (\$)	Project C (\$)
0	(10 000)	(30 000)	(18 000)
1	2800	6000	6500
2	3000	10000	6500
3	4000	12000	6500
4	4000	16000	6500

If the firm's cost of capital is 12% rank the projects in order of profitability. (10)

- b) Does it necessarily mean that if a country attains economic growth, it has also achieved economic development? (15)

[25 marks]

QUESTION THREE

- a) The following information is given for two assets:

Possible outcome	Probability	Returns	
		Asset C	Asset D
Pessimistic	0.25	23%	17%
Most likely	0.50	25%	25%
Optimistic	0.25	27%	35%

Which asset is riskier and why? (10)

- b) WeServe Ltd. has identified four (4) alternatives that meet its need for increased production capacity. The data gathered relative to each of these alternatives is summarized in the following table.

Alternative	Expected return (%)	Standard deviation of returns (%)
A	20	7.00
B	22	9.50
C	19	6.00
D	16	5.50

- i) Calculate the coefficient of variation for each alternative (8)
- ii) If the firm wishes to maximize risk, which alternative would you recommend and why? (3)

c) Discuss the two broad categories of risk.

(5)

[25 marks]

QUESTION FOUR

Discuss the major sources of finance that emerging countries of the world would consider in their desire to grow their economies towards sustainable development.

[25 marks]

QUESTION FIVE

Central Bank interventions in the financial market many times, at the cost of taxpayer money. There have been many situations where these efforts have not yielded the desired results. Discuss how should the engagement of the Central Banks be regulated?

[25 marks]

QUESTION SIX

Discuss the role of financial markets in economic development of a country

[25 marks]

END OF EXAMINATION

Appendix 1

Discounting factors at:

Year	15%	12%
1	0.869	0.893
2	0.756	0.797
3	0.657	0.712
4	0.571	0.636
5	0.497	0.567