KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
SECOND YEAR 1st SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: IAE 288

COURSE TITLE: AGRICULTURAL FINANCE AND ECONOMETRICS

DATE: 3RD AUGUST 2018   **TIME: 9 AM – 11 AM**

INSTRUCTIONS TO CANDIDATES

Answer **Question 1** and any other two (2) Questions.

QUESTION ONE

a) Agricultural finance is very important in the development of any agricultural sector. Clearly outline the role that agricultural finance plays in the development of the Kenyan economy. (10mks)

b) Explain how econometrics is different from economic theory, mathematical economics and economic statistics (6mks)

c) Explain the role of disturbance term in econometrics (5mks)

d) There are quite a number of factors that do affect the price the company pays to the finance providers also known as the investors required rate of return. Explain these factors (9mks)

QUESTION TWO

XYZ Ltd wants to raise new capital to finance a new project. The firm will issue 200,000 ordinary shares (Sh.10 par value) at Sh.16 with Sh.1 floatation costs per share, 75,000 12% preference shares (Sh.20 par value) at Sh.18 with sh.150,000 total floatation costs, 50,000 18% debentures (sh.100 par) at Sh.80 and raised a Sh.5,000,000 18% loan paying total floatation costs of Sh.200,000. Assume 30% corporate tax rate. The company paid 28% ordinary dividends which is expected to grow at 4% p.a.

Required:
a. Determine the total capital to raise net of floatation costs (5mks)
b. Compute the marginal cost of capital(15mks)

QUESTION THREE

Assume that a firm has got two mutually exclusive projects to invest in both projects would have an initial cost outlay of Sh. 8,000,000. The projects expected cash flows are as follows:

Year	Cash flows	
	Project A	Project B
0	- 8,000,000	- 8,000,000
1	700,000	2,390,000
2	2,500,000	3,610,000
3	4,500,000	2,500,000
4	4,900,000	1,500,000
5	5,500,000	5,200,000
6	600,000	50,000

Required

a) Using the ordinary payback period method, which project should be undertaken?　(7mks)

b) Assuming a discounting rate of 10%, which project would be chosen using the discounted payback period method? (8mks)

c) Briefly explain demerits of ordinary payback period method (5mks)

QUESTION FOUR

Write short notes on the following
- i)　　Time value of money (4mks)
- ii)　　Principle of productive purpose (4mks)
- iii)　　Over dues (4mks)
- iv)　　Liquidating loans (4mks)
- v)　　Balance sheet (4mks)