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(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMS

**FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

COURSE CODE: MBA 831

COURSE TITLE: FINANCIAL ECONOMICS

DATE: 23RD FEBRUARY, 2021

TIME: 9.00AM - 12NOON

INSTRUCTIONS TO CANDIDATES

Answer Question One and any other THREE (3) Questions

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

QUESTION ONE

- a) The word finance has been given diverse interpretations and meaning. Briefly give your understanding of the term finance (4marks)
- b) Clearly explain the term financial market and its subcomponents. Briefly out clearly players in each subcomponents. (4marks)
- c) Explain the term market efficiency. (4marks)
- d) Distinguish between theorem I and theorem II of Pareto efficiency (4marks)
- e) What are the reasons for investing in mutual funds (9mrks)
- f) The expected behaviors on securities are estimates as follows

State	Probability	Security A	Security B
1	0.25	-0.20	0.15
2	0.30	0.10	0.12
3	0.25	0.16	0.08
4	0.20	0.25	0.08

Calculate the variance of each security

- g) Explain the meaning of the following risks as used in financial economics (6marks)
 - i. Diversifiable Risks (3mrks)
 - ii. Market risks (3mrks)
 - iii. Non diversifiable Risks (3mrks)

QUESTION TWO

Discuss the historical development of Financial Economics (20marks)

QUESTION THREE

- a. What are the advantages of being listed on securities or stock exchange (10marks)
- b. Distinguish between broker and jobber in Capital markets (4marks)
- c. Explain the following terms
 - i. weak form of market efficiency (2marks)
 - ii. semi-strong form of market efficiency (2marks)
 - iii. Strong form of market efficiency (2marks)

QUESTION FOUR

Discuss Investment Under Certainty clearly showing firms optimal investment decision where applicable use diagrams (20mrks).

QUESTION FIVE

- a. Discuss the consumer optimal investment decision (15marks)
 - b. Give any five modern portfolio theory assumptions (5marks)
- (Total 20marks)