(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA832

COURSE TITLE: CORPORATE FINANCE

DATE:3RD JUNE,2022 **TIME: 9.00AM -12NOON**

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other THREE (3) Questions in Section B

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE

a) Explain the implications of foreign exchange risk for financial management of multinational firms (6mks)

b) Analyze four classifications of financial markets (8mks)

c) The returns of two assets under five possible state of nature are given below

State of economy	probability	Return on stock A(%)	Return on stock B(%)	Return on portfolio (%)
1	0.2	15	-5	5
2	0.2	-5	15	5
3	0.2	5	25	15
4	0.2	35	5	20
5	0.2	25	35	30

Required:

i) Expected return of each stock as well as for the portfolio (6mks)

ii) Standard deviation of each stock as well as for the portfolio (6mks)

d) Assume that the Carter Company issues a Sh.1,000, 8%, 20-year bond whose net proceeds are sh.940. The tax rate is 40%. Required calculate the before-tax cost of debt, ki, and the after-tax cost of debt is: kd (4mks)

SECTION B

Question Two

a) State and explain eight reasons why a company would want to invest abroad (8mks)

b) Two firms, the levered firm (L) and the unlevered firm (U) are identical in all important respects except financial structure.Firm L has Sh 4 million of 7.5% debt, while Firm U uses only equity. Both firms have EBIT of Sh 900,000 and the firms are in the same business risk class. Assume that both firms have the same equity capitalization rate $K_{e(u)} = K_{e(L)} = 10\%$. Required, Calculate the total market value of the two firms under these conditions (7mks)

Question Three

During Financial planning for corporations, a finance manager has to select financial instruments after considering various factors. Discuss five factors to be considered in making this decision (15mks)

Question Four

XYZ, Inc., with a 14 percent cost of capital after taxes is considering a project with an expected life of 4 years. The project requires an initial certain cash outlay of sh.50,000. The expected cash inflows and certainty equivalent coefficients are as follows:

Year	After-Tax Cash Flow	Certainty Equivalent Adjustment Factor
1	sh.10,000	0.95
2	sh.15,000	0.80
3	sh.20,000	0.70
4	sh.25,000	0.60

Assuming that the risk-free rate of return is 5 percent, Calculate the NPV and IRR of the project (15mks)

Question Five

a) Assume XYZ Corporation wishes to introduce one of two products to the market this year. The probabilities and present values (PV) of projected cash inflows are given below:

Product Initial investment PV of cash inflows Probabilities

A sh.225,000 1.00

$450,000 0.40

200,000 0.50

-100,000 0.10

B 80,000 1.00

320,000 0.20

100,000 0.60

-150,000 0.20

Construct a decision tree analyzing the two products (7mks)

b) The capital structure of a concern depends upon a large number of factors. Discuss atleast four factors influencing the capital structure of a firm (8mks)