



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

MAIN EXAMINATIONS

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

COURSE CODE: MBA 831

COURSE TITLE: FINANCIAL ECONOMICS

DATE: 9TH JUNE, 2022

TIME: 2.00PM - 5.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B
2. Question one carries 40 marks and each of the other THREE questions carry 20 marks each.

TIME: 3 HOURS

KIBU observes ZERO tolerance to examination cheating

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

QUESTION ONE (40 MARKS)

- a) Why is the shareholder-wealth-maximization rule a better one for corporate managers to follow than the profit-maximization rule?(10 Marks)
- b) The supply of money is determined by endogenous and exogenous variables. Discuss them. (10 Marks)
- c) How does the threat of a takeover serve as a mechanism to deal with the conflict of interest between owners and the management of a cooperation? (8 Marks)
- d) Georgette is currently 30 years old, plans to retire at age 65, and expects to live to age 85year.Her salary is 25,000 per year and she intends to maintain a constant level of real consumption spending over the next 55 years. assume no taxes, no growth in real labour income, and a real interest rate of 3% P.a
- i. What's the value of Georgette's human capital(6 Marks)
 - ii. What is her permanent income(6 Marks)

QUESTION TWO (20 MARKS)

- a) In 1962, Peter Minuit purchased Manhattan Island from the Native Americans for about \$24 worth of trinkets. If the tribe had taken cash instead and invested it to earn 6% per year compounded annually, how much would they have had in 2006, 380 years later?(12 Marks)
- b). How does the existence of a well-functioning stock market facilitate the separation of ownership and management of firms? (8 Marks)

QUESTION THREE (20 MARKS)

As Financial analyst Comprehensively discuss the concept of dividend policy and advice a client on whether the company's dividend policy would affect his/her shareholder's wealth (20 Marks)

QUESTION FOUR

- a) Distinguish between cheap (or easy or expansionary) and dear (or restrictive monetary policy). (5 Marks)
- b) e) Among the recent innovations in the banking sector is the introduction of mobile money. Discuss the possible effects of this innovation on Kenya's banking industry (5 Marks)
- c) An analyst uses the constant growth **DDM** to evaluate QRS stock. She assumes expected earnings of 10 dollars per share, an earnings retention rate of 75%, an expected rate of return on future investment of 18% per years, and a market capitalization rate of 15% per year. What is her estimated QRS price? What is the implied Net Present Value of future investment? 10 Marks

QUESTION FIVE (20 MARKS)

- a) In context of monetary policy, compare the simple Philips curve against the expectations-augmented Philips curve (12 Marks)
- b). The Central bank of Kenya has is argued to be an independent state-owned institution whose role is to formulate monetary policy. Comprehensively discuss the Central bank of Kenya role in monetary policy operations and administering of interest rate (8 Marks)

QUESTION SIX (20 MARKS)

- a) Write an essay on the Kenyan Capital Market, highlighting the issue mechanism in the primary market. (10 Marks)
- b) Critically examine the capital asset pricing model, giving its assumptions. (10 Marks)