



MUEO

MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS

2013/2014 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER I/II EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 206

EXAM TITLE: PRINCIPLES OF FINANCE

DATE: 1ST SEPTEMBER, 2014 TIME: 2.00 P.M.– 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ SEE INSIDE

BBM 206: PRINCIPLES OF FINANCE

Answer question ONE and ANY other THREE questions

QUESTION ONE

- a) In Kenya securities are traded in Nairobi Securities Exchange. Using relevant examples discuss method that can be used by company interested in issuing shares to the public through IPOs (15 marks)
- b) The main objective of a financial manager is to maximize the shareholders wealth. This primary objective reflects the most efficient use of a society's economic resources. Do you agree with this statement? (10 Marks)

QUESTION TWO

- a) The major obstacle to small business development in developing countries is access to credit. Using examples highlight these difficulties that small firms experience while obtaining credit. (8 marks)
- b) Explain the role financial institutions, venture capitalists and the government in alleviating credit constraints facing potential investors (7 marks)

QUESTION THREE

- a) A firm can finance its investments either through internal or external sources. Discuss this statement emphasizing on the advantage and disadvantages of the two options (10 marks)
- b) What are the specific costs associated with the various sources of finance? Discuss (5 marks)

QUESTION FOUR

- a) A financial system encompasses a number of participants one of which is the underwriters. Listing examples of underwriter in Kenya, shed light on the role of underwriters. (9 marks)
- b) The central Bank of Kenya is the sole institution mandated to issue currencies in the country. What are the other key functions of the Central Bank? (6 marks)

QUESTION FIVE

- a) For a banker the purpose of business valuation is lending. Discuss the use of business valuation to
 - i) Shareholders
 - ii) Directors and managers
 - iii) Government (6 marks)
- b) Explain any THREE approaches or models used in the valuation of a firm (9 marks)

QUESTION SIX

Critique the following THREE statements

- i) "Debt capital is cheaper than equity" (5 marks)
- ii) "Profitability is the key criteria for evaluating investment opportunities" (5 marks)
- iii) "The sole responsibility of a finance manager is to control a firm's financial liquidity" (5 marks)