



Strathmore
UNIVERSITY

**STATHMORE INSTITUTE
DIPLOMA IN PROCUREMENT
DPR 1301: BUSINESS FINANCE AND ECONOMICS
END OF SEMESTER EXAMINATION**

DATE: *Friday 7th December 2018*

Time: 2 Hours

Instructions

1. This examination consists of **SIX** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

- (a) Explain four sources of Funds for businesses **(4mks)**
- (b) Nana borrowed Shs. 1 million from Huduma bank at an annual compound interest of 14% on the reducing balance. The loan was repayable in annual instalments over a period of 4 years payable at the end of each year. Required: A loan amortization schedule. **(9marks)**
- (c) A company has a cost of capital of 10%. Calculate the NPV of an investment project with the following estimated cash flows:

Years	Cash flow each year
	Sh.
0	(70,000)
1	15,000
2 – 4	12,000
5 – 10	8,000

State whether the project should be undertaken or not. **(8marks)**

- (d) Explain the following terms:
- (i) Price Elasticity of Demand
 - (ii) Income elasticity of Demand **(5marks)**
- (e) A fall in the price of X from Sh.12 to Sh.8 causes an increase in the quantity of Y Demand from 900 to 1,100 units. What is the cross elasticity of demand between X and Y. **(4marks)** **(Total: 30marks)**

QUESTION TWO

- (a) Explain the various decisions in Financial Management (Business Finance) **(3mks)**
- (b) Explain Agency Relationship in a business and give an example **(4mks)**

The following information relates to Jionee supplies, a sole trader.

	Sh.
Purchase of Raw materials	670
Usage of Raw Materials	650
Revenue from sale of finished goods (all on credit)	2,500
Cost of sale of finished goods	1,800
Average trade payables	140
Average raw materials inventories	120
Average work in progress	100
Average finished goods inventories	210
Average trade receivables	470

Required: What is the length of the operating cash cycle? **(8mks)**

(Total: 15marks)

QUESTION THREE

(a) Explain the term Weighted Average Cost of Capital (WACC) **(3mks)**

(b) Dabawa Ltd has the following capital structure which it considers optimal:

Equity	55%
Debt	25%
Preference Shares	20%

The following information is given:

- (i) The current Market price per share for the ordinary shares is Sh.25 and the floatation cost to raise new shares is Sh.5. The company has estimated the growth rate to be 10% into perpetuity.
- (ii) The current interest on loan is 9% before tax
- (iii) The company has issued 10% Sh.10 par value preference shares currently trading at Sh15 per share. The floatation cost is Sh.3 per share.
- (iv) The company's tax rate is 30%/

Required: Calculate the Weighted Average Cost of Capital (WACC) **(12marks)**

(Total: 15marks)

QUESTION FOUR

(i) State four advantages and four disadvantages of a perfectly competitive market structure. **(8marks)**

(ii) The following information relates to the demand of a commodity in relation to the income of a consumer:

Income	Demand
(Sh.)	(Units)
15,000	16
29,000	7

Required: The income elasticity of demand of the commodity. Interpret your result **(3 marks)**

(iii) The demand and supply functions of a certain commodity are given as follows:

$$Q_d = 300 - 0.4p$$

$$Q_s = -400 + 0.6p$$

Where:

Q_d is the demand function. Q_s is the supply function p is the unit price of the commodity.

Required:

The equilibrium price and quantity of the commodity. **(4 marks)** **(Total: 15marks)**

QUESTION FIVE

- (i) Summarise five reasons why unemployment is a major policy issue in developing countries **(5 marks)**

- (ii) Suggest five policy measures that could be adopted to reduce the level of unemployment in a developing country. **(10 marks)**

(Total: 15marks)

QUESTION SIX

- (i) Highlight five disadvantages of the monopoly market structure. **(5 marks)**
- (ii) Outline the roles of commercial banks in boosting the economic development of a country.

(10 marks)

(Total: 15marks)