



**REFORMED CHURCH UNIVERSITY**

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**FACULTY OF COMMERCE**

**BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING &  
FINANCE**

**INTRODUCTION TO CORPORATE FINANCE**

**HBAF 108**

**PART 1 SEMESTER 2**

**Total Marks [100]**

**DATE: JUNE 2024**

**Time: 3 Hours**

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**INSTRUCTIONS**

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other **three (3)**
3. Each question carries *25 marks*
4. Start each question on a new page

1. Explain the three key business decisions in corporate finance and their significance in the financial management of organizations.

(25 marks)

2. a) Calculate the market price for a 20-year bond with a nominal value of \$1,000. Coupon interest will be paid at a rate of 15% semi-annually. The yield to maturity for this type of bond is 12%.

(10 marks)

b) Explain the following terms as they are used in equity valuation:

- i. Constant Growth Model (5 marks)
- ii. Current price ( $P_0$ ) (5 marks)
- iii. Dividend (5 marks)

3. Discuss the role of investment banks and financial advisors in M&A transactions. Explain the services provided by these professionals and the value they bring to the M & A process.

(25 marks)

4. Find the values for the following:

- a) An initial \$500 for 1 year at 6 percent compounded annually.  
(3 marks)
- b) An initial \$600 for 2 years at 6% percent compounded monthly. (3 marks)
- c) The present value of \$500 due in 1 year at a discount rate of 6 percent.  
(3 marks)
- d) The present value of \$500 due in 2 years at a discount rate of 6 percent.(3 marks)
- e) You have been hired as a financial advisor to Michael Jordan. He has received two offers for playing professional basketball and wants to select the best offer, based on considerations of money only. Offer A is a \$10m offer for \$2m a year for 5 years. Offer B is a \$11m offer of \$1m

a year for four years and \$7m in year 5. What is your advice if money is worth 8% compounded quarterly? (8 marks)

f) You owe a loan of \$8,000. How much must be your first repayment if you plan to repay daily (365 payments beginning in 10 days) and increase each payment by 0.01%. Assume your lender charges you 25% interest per year. (5 marks)

5. Compare and contrast different capital structure decisions, highlighting the advantages and disadvantages of each and how they impact a company's risk and return profile. (25 marks)

6. Explain the concept of dividend policy and its importance in financial management. (25)

**END OF PAPER**