



REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
PUBLIC ADMINISTRATION
FINANCIAL MANAGEMENT

HPAD 206

PART 2 SEMESTER 1 EXAMINATION

TOTAL MARKS [100]

DATE: DECEMBER 2022

Time: 3 Hours

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 (a) Explain the goal of financial management. (5)
 (b) Discuss agency problems and how they arise. (20)
- 2) Discuss **any five** functions of financial markets in Zimbabwe (25)
- 3) An investor is considering investing in Zimbabwe. The following state of conditions prevails.

State	Probability	Return A	Return B
Excellent	0.2	30 %	10 %
Good	0.5	15 %	20 %
Bad		5 %	30 %

- a) Calculate the Expected Return of security A and B. (5)
 b) If 60% of the total wealth is invested in asset A and 40% in Asset B, calculate the Expected Return of the portfolio. (5)
- c) Explain the **three** forms of Efficient Market Hypothesis. (15)
- 4) Explain any five sources of finance giving advantages and disadvantages of each. (25)
- 5) Mr Tigere buys a 4-year bond with a 10% coupon paid semi-annually. The interest rate is quoted as 8% p.a. The face value of the bond is \$1000.
- (i) Calculate the present value of the bond. (6)
 (ii) Determine the effective annual rate of return on the bond. (3)
 (iii) Use the Capital Asset Pricing Model (CAPM) to determine the required rate of return for Barclays Holdings Zimbabwe assuming it has a beta of 1.2. Zimbabwe Treasury Bill rate is 5.07% whilst the return on the Zimbabwe Stock Exchange (ZSE) Industrial index is 15%. (6)
- (b) Bluerays industries has produced a barrel per week for the past 20 years but cannot grow because of certain legal hazards. It earns \$25 per share per year and pays it all out to stockholders. The stockholders have alternative, equivalent-risk ventures yielding 20% per year on average. How much is one share of Bluerays worth? Assume the company can keep going indefinitely (4)
- (c) Explain the concept of portfolio diversification. (6)
- 6) (a). Explain how the Accounting Rate of Return differs from other methods of investment appraisal. (5)

(b). Giving examples explain how the Payback method is used to arrive at a project to be chosen (5)

(c). Gabriel is considering whether or not to invest in project KK which has the following details. Use the Net Present Value to advise him on whether he should take it or not.

Investment outlay \$10 000

		\$
Estimated future cash inflows	Year 1	4 000
	Year 2	4 000
	Year 3	4 000
	Year 4	1 000

Cost of Capital is 10%

(15)

End of Paper