

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MATSER OF BUSINESS
ADMINISTRATION**

MBAD 834: FINANCE THEORY

STREAMS:

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 07/04/2021

8.30 A.M – 11.30 A.M

INSTRUCTIONS:

Answer question one and any other three

Do not write on the question paper

QUESTION ONE

- (a) Explain relevance of finance theory to investors. [10 marks]
- (b) Discuss various market anomalies as explained by the efficient market hypothesis showing how they manifest themselves. [15 marks]
- (c) Discuss contributions of the state preference theory to the finance theory. [8 marks]
- (d) Explain limitations of utility theory and suggest possible solutions. [7 marks]

QUESTION TWO

Highlight main scholars, finance who have contributed to the growth of finance as a discipline. Briefly discuss their work. [15 marks]

QUESTION THREE

Explain the contributions of modern portfolio theory (MPT), Arbitrage pricing theory (APT) Capital Asset Pricing Model (CAPM) to the field of investment. [15 marks]

QUESTION FOUR

- (a) ‘ Interest rate is crucial in formulating both active and passive strategies for managing bond portfolios. Bond prices decrease when yields rise, and that the price is cowvex’.

Discuss this statement.

[15 marks]

QUESTION FIVE

- (a) Explain the relevance of the following theories in relation to bond pricing.

(i) Liquidity premium theory [4 marks]

(ii) Expectations theory [3 marks]

(iii) Market segmentation theory [3 marks]

- (b) Explain the concept of duration as explained by Fredrick Macaulay. [5 marks]
