

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF DOCTOR OF PHILOSOPHY IN
BUSINESS ADMINISTRATION**

DBAM 930: THEORY OF FINANCE

STREAMS: PhD BUSINESS ADMINISTRATION

TIME: 3 HOURS

DAY/DATE: MONDAY 12/08/2019

2.30 P.M. – 5.30 P.M.

INSTRUCTIONS:

- **Answer question one and any other three questions**

QUESTION ONE (30 MARKS)

- (a) Discuss the application of finance theory in the overall financial management of companies Kenya. (8 marks)
- (b) Explain the implications of the capital asset pricing model in capital budgeting. (6 marks)
- (c) Discuss application of Black-Scholes model and its extensions in asset pricing. (8 marks)
- (d) Explain what is meant by the structure of interest rates clearly highlighting the theoretical basis of an upward sloping yield curve. (8 marks)

QUESTION TWO (20 MARKS)

- (a) The Capital Asset Pricing Model is a fundamental contribution to the understanding of the determinants of asset prices. However, it is not applicable in the real world due to its limiting assumptions. Examine this statement. (10 marks)
- (b) Discuss the important implications of the Capital Asset Pricing Model in asset pricing and investor behavior. (10 marks)

QUESTION THREE (20 MARKS)

- (a) Explain the implication of efficient market theory and agency theory to corporate financial management. (8 marks)
- (b) The financial crisis of 2008-2009 forced finance scholars to look critically at capital structure theory because the problems faced by many companies stemmed from their financing policies. Analyze the consistency of the various theories of capital structure with observed empirical evidence. (12 marks)

QUESTION FOUR (20 MARKS)

“The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don’t fit together” (Black, 1976). Explore classifications of the corporate dividend theories identifying clearly why the dividend puzzle has remained over half a century. (20 marks)

QUESTION FIVE (20 MARKS)

During a finance theory class, one student presented a paper on the landmark seminal works underpinning asset pricing and derivative valuation. Evaluate the theory on the pricing (valuation) of corporate securities for the last three centuries. (20 marks)
