

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF MASTER  
OF BUSINESS ADMINISTRATION

MBAD 834: FINANCE THOERY

STREAMS: MDAD

TIME: 3 HOURS

DAY/DATE: MONDAY 09/12/2019

2.30 P.M. – 5.30 P.M.

**INSTRUCTIONS:**

- Answer question ONE and any other THREE questions
- Do not write anything on the question paper

**QUESTION ONE**

- (a) Finance theory has grown overtime. Explain the key landmarks in the development of finance theory, highlighting the key features, main contributions towards finance theory development. Also critique than work as a scholar [20 marks]
- (b) Assume that you are an investment consultant with Kenya investment authority. Explain how finance theory can be used to influence investments decisions in a firm. [8 marks]
- (c) Critique utility theory and with examples explain this application in investment decisions in your firm [12 marks]

**QUESTION TWO**

- (a) Discuss various market anomalies showing how they manifest themselves. [12 marks]
- (b) Explain role of 'duration' in bond investment [30 marks]

**QUESTION THREE**

- (a) Capital asset pricing model and arbitrage pricing theory are two schools of thought which explain risk return relationship in finance

**Required:**

Discuss assumptions that guide development of capital asset pricing model. Critique these assumptions and give your justification [10 marks]

- (b) Explain similarities and differences between capital asset pricing theory and arbitrage pricing theory [5 marks]

**QUESTION FOUR**

- (a) Different theories can be used to explain the term structure of interest rates as used in bond pricing and relation. Explain the main theories used lighting their limitations. [12 marks]
- (b) Explain relevance of immunization used in bond pricing [20 marks]

**QUESTION FIVE**

- (a) Explain implications of efficient market hypothesis (EMH) to the following
- (i) Technical market analysis [3 marks]
  - (ii) Portfolio policy investors [3 marks]
- (b) Briefly discuss and critique the work of Harry Markowitz in the development of portfolio theory [9 marks]
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