

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF MASTER OF  
BUSINESS ADMINISTRATION

MBAD 834: FINANCE THEORY

STREAMS: MBAD

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 06/12/2017

2.30 P.M. – 5.30 P.M.

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INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE

QUESTION ONE

- (a) There are several major development of financial theory. Explain any four such development and for each give a briefly of key features, the researchers who contributed to the development and critique their developments. [20 marks]
- (b) Capital asset pricing model and arbitrage pricing theory are major milestones in finance theory.

**Required:**

- (i) Explain the assumptions behind these two theories and their implications. [10 marks]
- (ii) Explain the similarities and differences between these two models. [10 marks]

QUESTION TWO

Explain the contributions of Harry Markowitz to portfolio theory. Critique his work.[15 marks]

QUESTION THREE

- (a) Demonstrate your understanding of the following:
- (i) Mean-variance paradox in the context of the theory of choice. [5 marks]
- (ii) Differences and similarities between a forward contract and a future contract. [5 marks]
- (iii) Optimal investment and financing policy [5 marks]

**QUESTION FOUR**

- (a) “Technical approach to investment is essentially an attempt to exploit recurring and predictable patterns in stock pricing to generate abnormal trading profits”. In the light of this statement, examine the basic principles of technical analysis and state how the assumptions of EMH crash with those of fundamental analysis. [5 marks]
- (b) Briefly discuss limitations of the state preference theory. [5 marks]
- (c) “Pricing risk and coupon investment risk have an opposite effect on an investors ending wealth position”. Discuss. [5 marks]

**QUESTION FIVE**

- (a) Discuss the utility theory and how it can be applied in investment decision making process. [9 marks]
  - (b) Term structure of interest rates can be explained in different theories. Explain two such theories. [6 marks]
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