

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN AGRIBUSINESS MANAGEMENT

#### AGBM 851: AGRICULTURAL FINANCE

STREAMS:

TIME: 3 HOURS

DAY/DATE: TUESDAY 17/04/2018

2.30 P.M – 5.30 P.M

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**INSTRUCTION:**

- Answer any three questions

- (i) Discuss giving appropriate examples the significance of agricultural finance to the agricultural sector in Kenya today. [10marks]
  - (ii) What are the financial requirements of Kenyan farmers. [3marks]
  - (iii) Explain the principles of farm finance. [7marks]
- Assume you are agricultural finance officer in an agro-based firm in Kenya and credit is an important aspect to consider and due to its necessity, with this in mind discuss the criteria in which credit is classified. [20marks]
- An agricultural based company is considering the following investment projects.

Projects	Cash flows (ksh)			
	CO	C1	C2	C3
A	-10,000	10,000		
B	-10,000	7,500	7,500	
C	-10,000	2,000	4,000	12,000
D	-10,000	10,000	3,000	3,000

**Required:**

- Rank the projects according to each of the following methods.

- (i) Payback period [3marks]
- (ii) IRR [6marks]
- (iii) NPV [8marks]

Assuming discount rates of 10 and 30 per cent.

- (b) Assuming the projects are independent, which one should be accepted ? If the projects are mutually exclusive which project is best? [3marks]
4. (i) Discuss the role of informal credit sources in agricultural financing. [10marks]
- (ii) Explain the agency problem and hence how to mitigate this problem in organizations. [5marks]
- (iii) Discuss the various decisions that are made by finance managers from time to time. [5marks]
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