
CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
CHUKA/THARAKA**

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

MBAD 834: FINANCE THEORY

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 06/12/2018

2.30 P.M – 4.30 P.M

INSTRUCTIONS

- **Answer question one and any other two questions**
 - **Do not write on the question paper**
1. (a) There are several land marks in the development of finance theory. Pick any four major land mark developments and for each give a brief of key features, who contributed to the development and when as you critique their contributions. [20 marks]
(b) Capital assets pricing model and arbitrage pricing theory (APT) are major themes in finance.
 - (i) Explain the assumptions made during the development of these theories. [10 marks]
 - (ii) Explain the similarities and differences between CAPM and APT . (10 marks]
 2. (a) Demonstrate your understanding of mean variance paradox within the theory of choice. [7 marks]
(b) Term structure of interest rates can be explained in different themes. Explain relevant theories and their limitations in explaining this phenomenon. [8 marks]
 3. (a) Discuss the various market anomalies as explained by the efficient market theory showing how they manifest themselves . [10 marks]
(b) “Pricing risk and coupon investment risk have an opposite effect on an investors ending wealth position” Discuss. [5 marks]

4. (a) Discuss reference of utility theory in the investment decision making process.

[8

marks]

- (b) Discuss limits of the state preference theory and suggest possible solution as a scholar of finance. [7 marks]

5. (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 statements, examine the basic principles of technical analysis and explain how the assumptions of EMH crash with those of fundamental analysis. [5

marks]

- (b) “Interest rate is crucial in formulating both active and passive strategies for managing bond portfolio. Bond prices decrease when yields rise, and that the price curve is convex” Discuss this statement. [10 marks]
