



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2023/2024 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN FINANACIAL
ECONOMICS**

COURSE CODE: ECF 3103-1

COURSE TITLE: FINANCIAL ECONOMICS

DATE: 14TH DECEMBER 2023

TIME: 0830- 1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **TWO** questions

This paper consists of 3 printed pages. Please turn over

QUESTION ONE

(a) The practice of corporate finance involves five basic functions. Discuss these functions. **(7marks)**

(b) The cash inflow of a particular project is given below

Year	Cash outflow in KSh	Cash inflow in KSh
0	200,000	-
1	60,000	20,000
2		50,000
3		70,000
4		100,000
5		60,000

The salvage value at the end of the 5th year is KSh. 20,000. The cost of capital is discounted at 12%. Calculate the net present value of the project **(8marks)**.

(c) If we have the option of receiving some money today, or the same amount of money a year from now, we will choose to get the money now. Explain why you would prefer to get your money now. **(5marks)**

QUESTION TWO

(a) As an investor, what variables in your firm should your corporate manager concentrate on? **(7marks)**

(b) You decide to put \$12,000 in a money market fund that pays interest at the annual rate of 8.4%, compounding it monthly. You plan to take the money out after one year and pay the income tax on the interest earned. You are in the 15% tax bracket. Find the total amount available to you after taxes. **(8marks)**

QUESTION THREE

(a) Given; $FV_n = PV \times (1 + i)^n$, solve for the number of years **(7marks)**

(b) Discuss the functions of financial markets in the economy
(8marks)

QUESTION FOUR

(a) You have just opened an IRA in which you plan to deposit KSh.100 a month, at the beginning of every month. The IRA will pay 9% annually, with monthly compounding. Approximately, how long will it take you to accumulate KSh.20,000 in this account?
(7marks)

(b) Discuss the significance of financial economics in the business world today
(8mks)

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