



TECHNICAL UNIVERSITY OF MOMBASA
School of Business

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE

BFI 4407: ISSUES IN FINANCIAL MANAGEMENT

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: JUNE/JULY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages

QUESTION 1 (Compulsory)

Case:

The Euro Sovereign debt Crisis – Read the following case and answer the questions below.

The euro sovereign debt crisis started with Greece in early 2010 and soon spread to other “periphery” countries such as Portugal, Spain and Italy. Evidence that the Greek Crisis stemmed from an unsustainable fiscal situation led many observers to believe that fiscal mismanagement underlay the problems in these countries as well.

Alternative interpretation, however, traces these crisis in the periphery to an excessive reliance on foreign capital. Periphery countries were borrowing heavily from abroad before 2010 to support domestic consumption and housing booms.

When foreign investors became unwilling to extend new credit, periphery countries faced wrenching adjustment pressures. In particular, the withdrawal of private capital forced these countries to bring total domestic spending –government and private, more closely into line with domestic income.

However, the tightening in credit conditions in the periphery economies proved considerably less severe than what would ordinarily result from capital flight on the scale observed.

Why was that/ this is one of the issues in Finance Management.

- a) Discuss the questions below in general and specifically within the Kenyan state of economy citing examples. **(10 marks)**
- b) Discuss the role of the Central Banks of these deficit countries played to contained the debt-crisis. **(5 marks)**
- c) In the years following the formation of the monetary union in 1999, euro area periphery countries were spending more on consumption and on investment such as housing than could be paid for by income earned from domestic production. Discuss the above paragraph in detail, with relevant example from the Kenyan economy perspective. **(5 marks)**
- d) The periphery countries started to cut back on domestic spending with the global recession in 2008, thereby reducing their reliance on foreign borrowing. Discuss the lessons we can learn from the above statement in order to manage a debt crisis. **(10 marks)**

QUESTION 2

- a) Discuss the differences between Capital Market Line (CML) and Security Market Line (SML). **(10 marks)**
- b) The position long held by Savings and Credit Co-operatives (SACCOs) as the most affordable channels for mostly low-income earners to save and harness cheap capital, has since changed, by amendments contained in the Finance Bill 2013. Which introduced duty as per the customs and Excise ACT CAP 472. This is one of the emerging issues in Finance Management that you are asked to address. **(10 marks)**

QUESTION 3

- a) Discuss the assumptions underlying the CAPM. **(10 marks)**
- b) The concept of CAPM is to assist the investor to choose the “best” portfolio. Draw a graph that illustrate this idea. **(5 marks)**
- c) Capital Market Line (CML) is a line used in the capital asset model to illustrate the rates of return for efficient portfolios depending on the risk-free rate of return and the level of risk (standard deviation) for a particular portfolio. Draw a graph that illustrate the above paragraph. **(5 marks)**

QUESTION 4

- a) Write brief notes on the following:
- i) Warrants and convertible **(5 marks)**
 - ii) Junk Bond Finance **(5 marks)**
- b) Discuss why data security is a major issue of concern in the financial services industry. **(10 marks)**

QUESTION 5

- a) Discuss objectives why companies merge/amalgamate in the business world. **(10 marks)**
- b) There are number of legal issues under merger/amalgamation. Write brief notes on the following:
- The Income Tax Act **(5 marks)**
 - Precedents **(5 marks)**