



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE  
(FINANCE)

**BFI 4407: ISSUES IN FINANCIAL MANAGEMENT**

END OF SEMESTER EXAMINATIONS

**SERIES:** APRIL 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***

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**QUESTION 1 (Compulsory)**

Case: What should be done about conflict of interest? A central issue in business ethics. Read the following case and answer the questions that follow:

Ethical issues in the financial services industry affect everyone, because even if you don't work in the field, you are a consumer of services. That was the message of Ronald F. Duska and James A. Mitchell in their presentation at a recent meeting of the Business and Organizational Ethics Partnership.

The public seems to have the perception that the financial services sector is more unethical than other areas of business, Mitchell begun. For the past Five years, he has been Executive Fellow Leadership at the centre for Ethical Business Culture, which is affiliated with the University of St. Thomas College of business.

This misperception persists for several reasons, Mitcheal said. First of all, the industry itself is quite large. It encompasses banks, securities firms insurance companies, mutual fund organizations, investment banks, person funds. Mortgage lenders – any company doing business in the financial arena. Because of its vast size, the industry tends to garner lots of headlines, many of which tout is ethical lapses.

**Required:**

- a) What are these conflicts of interest, and how serious are they. (10 marks)
- b) Why have they been the source of recent woes in financial market. (10 marks)
- c) Highlight some specific reasons that are attributable to these lapse of ethical financial issues. (10 marks)

**Note:** Discuss these questions in general and specifically within the Kenyan markets – illustrate with relevant examples.

**QUESTION 2**

- a) There are various growing areas of finance, including micro finance, crowd funding, algorithmic trading and impact investing.

**Required:**

Write brief notes on the following

- i) Crowd funding (5 marks)
- ii) Impact investing. (5 marks)
- b) Multifactor models of security returns have received increased attention in the recent times. The Arbitrage Pricing Theory probably has drawn the most attention and has been proposed as a replacement of the CAPM.

**Required:**

Explain the primary differences between APT and CAPM. (10 marks)

**QUESTION 3**

- a) i) What do you understand by venture financing? (5 marks)  
ii) Discuss possible reasons why there is insignificant growth in venture capital in the developed countries. (5 marks)
- b) Discuss the constraints of venture capital in Kenya. (10 marks)

#### QUESTION 4

- a) i) Define what is merger and how is it different from amalgamation? **(5 marks)**  
ii) Write brief notes on the following:  
– Congeneric merger  
– Conglomerate merger **(5 marks)**
- b) Discuss the following issues on merger/amalgamation by citing relevant cases under company law.  
i) Whether High Court has power to sanction a scheme of amalgamation/merger, when the Memorandum of Association (MOA) of the company does not have specific reference to amalgamate merge with other company. **(5 marks)**  
ii) Can shareholder dispute the valuation of shares and swap ratio? **(5 marks)**

#### QUESTION 5

- a) The recent introduction of Capital Gains Tax has raised concern among investors. With stock brokers and investment banks threatening to boycott trading at Nairobi Stock Exchange. Your colleague has approached you, being a student of finance, to explain this developing issue in financial management in Kenya. **(10 marks)**
- b) Kenya's Debt Crisis is of major concern to the growth of our economy. You have been asked to suggest means on controlling this emerging financial crisis. **(10 marks)**