TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF FINANCE AND ACCOUNTING

UNIVERSITY EXAMINATION FOR

BACHELOR OF COMMERCE

BFI 4410: ISSUES IN FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES: JULY 2025 **TIME:** 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS.

Question ONE

(a) A portfolio consists of three securities P, Q and R with the following parameters.

	P	**Q**	**R**	**Cor**
Expected return q	24	21	20	
Standard deviation q	28	24	22	
Correlation				-0.5
PQ				+0.6
PR				+0.8

If the securities are equally weighted

i) How much is the portfolio return of these three securities. **(3 marks)**
ii) How much is the portfolio risk. **(6 marks)**

(b) Discuss three major types of mergers. **(3 marks)**

Question TWO

(a) Portfolio consists of two stocks. Stock A is worth shs.50,000 and has a standard deviation of 20%. Stock B is worth shs.100,000 and has a standard deviation of 10%. The correlation between the two stocks is 0.85. Calculate the variance and standard deviation of the portfolio. **(6 marks)**

(b) An investor holds two equity shares X and Y in equal proportion with the following risk and return characteristics.

$E(Rx) = 23\%$ $\quad\quad$ $E(Ry) = 20\%$

$\sigma_x = 27\%$ $\quad\quad$ $\sigma_y = 21\%$

The returns of these securities have a positive correlation of 0.76. Calculate the
(i) Portfolio return
(ii) The Portfolio risk

(c) From the following data compute beta of security j.

$\sigma_j = 14\%$ $\quad$ $\sigma_p = 11\%$ and $Cor_j\mu = 0.84$ **(6 marks)**

Question THREE
A business venture that seeks the services of venture capital financing must prepare a business plan for consideration by a venture capitalist.

(a) Discuss the essential elements of a business plan. **(10 marks)**

(b) What does a venture capitalist look for in a venture? **(10 marks)**

Question FOUR
(a) Discuss between the Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT). **(6 marks)**

(b) Calculate the expected return of security j from the following information **(4 marks)**
Rf = 12%, RM = 21%, Bi = 1.45

(c) Discuss the main types of business combinations. **(10 marks)**

Question FIVE

(a) A merger requires a detailed plan for integration. Discuss. **(10 marks**

(b) Firm PAC Ltd is considering the acquisition of firm Qata Ltd. Firm PAC Ltd has a total market value of shs.21b. Firm Qata Ltd has a total market value of shs.4b. The value of PAC Ltd after merger that is combined value of merged firms is expected to be shs.29b due to operating efficiencies. Firm PAC Ltd is required to pay 5.5b to acquire firm Qata.

Required:

(i) What is the net economic advantage to firm PAC Ltd if it acquires firm Qata Ltd. **(6 marks)**

(ii) What motives could PAC Ltd be having in trying to acquire Qata Ltd. **(4 marks)**