

**CHUKA**

**UNIVERSITY**



**UNIVERSITY EXAMINATIONS**

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

**MBAD 834: FINANCE THEORY**

**STREAMS: MED (PT)**

**TIME: 3 HOURS**

**DAY/DATE: WEDNESDAY 06/10/2021**

**8.30 A.M. – 11.30 A.M.**

**INSTRUCTIONS**

- **Answer question one and any other THREE**

**Question one**

- a) Capital asset pricing model and Arbitrage Pricing Theory are major milestone in the world of finance.

Required:

- Explain the assumptions behind these two theories and their implications to investment. (10 marks)
  - Critique the above assumptions and support your argument. (10 marks)
  - Explain the similarities and differences between these two theories. (15 marks)
- b) There are several major developments in Finance theory. Explain any four such developments and for each give a brief of key features, the researchers who contributed to the development and critique their contributions to the field of finance. (20 marks)

**Question two**

- a) Technical approach to investment is essentially an attempt to exploit recurring and predictable patterns in stock prices to generate abnormal trading profits". In the light of

this statement, examine the basic principles of technical analysis and state how the assumptions of EMH crash with those of fundamental analysis. (8 marks)

- b) Term structure of interest rates can be explained in different theories. Explain two such theories. (7 marks)

**Question three**

- a) Explain the contributions of Harry Markowitz to Portfolio Theory. Critique his work and support your argument. (10 marks)
- b) Demonstrate your understanding of the mean-variance paradox in the context of the theory of choice. (5 marks)

**Question four**

- a) Discuss the assumptions of utility theory and explain how its relevant in investment decision making process. (9 marks)
- b) Price risk and coupon investment risk have an opposite effect on investor's ending wealth position. Explain (6 marks)

**Question five**

- a) Briefly discuss limitations of the state preference theory. (6 marks)
- b) Discuss the term "Finance Theory" and discuss its role and its application in Kenya's investment environment. (9 marks)
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