

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MBAD 834: FINANCE THEORY

STREAMS: M.Sc

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 14/07/2021

2.30 P.M. – 5.30 P.M.

Question one

- (a) Explain the term “finance theory” discussing its role and application in business. (10 marks)
- (b) Identify any FIVE mathematical and statistical tool in fiancé. Give their mathematical expression and indicate how they can be applied in solving research problems in business organizations. (15 marks)
- (c) Discuss utility theory and with clear examples how it can be applied in investment decisions. (15 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 light of this statement, examine the basic principles of technical analysis. (4 marks)
- (b) Briefly discuss limitations of state preference theory. (6 marks)
- (c) Price risk and coupon investment risk have an opposite effect on an investor’s ending wealth position. Explain. (5 marks)

QUESTION THREE

With respect to CAPM and APT show how these asset pricing models compare and contrast, explaining their main assumptions. (15 marks)

QUESTION FOUR

- (a) Explain the following theories as used in term structure of interest rates:
 - (i) Expectation theory (3 marks)
 - (ii) Liquidity premium theory (3 marks)
 - (iii) Market segmentation theory (3 marks)
- (b) Explain the relevance of duration principle in pricing of bonds. (6 marks)

QUESTION FIVE

Highlight the contributions of any THREE main scholars in the field of finance. Also critique their work. (15 marks)

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