## EGERTON UNIVERSITY

## BCOM 335: FINANCIAL MANAGEMENT- CAT 1

1. A. The Common Company has paid the following dividends during the past four years of:

|  |  |
| --- | --- |
| **YEAR** | **DPS** |
| 2007 | 2.00 |
| 2008 | 2.10 |
| 2009 | 2.30 |
| 2010 | 2.52 |

If dividends are expected to grow at the same rate as the past four years and the required rate of return on Common is 10%, what is the expected price of a share of Common at the end of 2010? (8 MKS)

B. The Central Bank of Kenya recently (February 2011) floated a Savings Development Bond (Ksh. 100 par value) with a coupon rate of 12% and a maturity of 20 years. The interest is **payable semi-annually**. What is the worth of this bond, assuming NO tax on the interest, and that your required rate of return on is 8%? (6 mks)

**Hint:** Assume you plan to buy only one bond of Ksh. 100 par value.

1. A. What is agency cost? Give three examples of agency costs. (8 mks)

B. Egerton University is having a bit of a problem: The executives (VC, DVCs and other officers) are using the university’s vehicles for personal reasons, such as traveling on vacation and visiting friends in other towns and relatives upcountry. The university council (The equivalent of the Board of Directors in a company) wants management to cut down on this type of activity.

* 1. In terms of the different types of agency costs, how would we classify the misuse of university’s vehicles? (1 mk)
  2. What measures can the board take to reduce or eliminate the misuse of the university’s vehicles? (2 mks)

1. Discuss the three levels of capital market efficiency (6 mks)
2. Discuss the following concepts

i. Book value (2 mks)

ii. Liquidation value (2 mks)