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A)

	systematic risk	unsystematic risk
1	Also known as market risk or non-diversifiable risk. It refers to the risk that affects the entire market or a particular sector.	Also known as specific risk or diversifiable risk. It pertains to risks that are unique to a particular company or asset.
2	Inherent in the overall market or economy, affecting all investments.	Associated with factors specific to a company or industry, affecting only that entity or a few entities.
3	Macro-economic factors, geopolitical events, interest rates, inflation, etc.	Internal factors (management issues, labor strikes), external factors (competition, regulatory changes), etc.
4	Cannot be eliminated through diversification because it affects the entire market.	Can be mitigated through diversification by holding a diversified portfolio of assets.
5	Affects the entire portfolio; not possible to diversify it away.	Can be reduced through diversification, as not all assets are affected simultaneously.

B)

The Weighted Average Cost of Capital (WACC) is a financial metric that calculates the average cost of financing a company's assets based on the proportion of each financing source in the company's capital structure. In the WACC calculation, market value weights are used to determine the relative importance of each component of the capital structure.

Market value weights represent the proportion of each financing source (equity, debt, and other sources of financing) relative to the total market value of the company. The market value of each component is obtained by multiplying the current market price per share for equity or the market value of debt with the outstanding amount of debt.

The formula for calculating WACC using market value weights is as follows:

WACC = (E/V) * Re + (D/V) * Rd * (1 - Tc)

C)

Market Expansion: Acquiring another company can be a strategic move to expand into new geographic markets or gain access to a broader customer base. By acquiring a company with an established presence in a different region, the acquiring company can quickly enter new markets and leverage existing customer relationships. Achieving this objective depends on successful integration and capturing synergies from combined operations.

Product Diversification: An acquisition can enable a company to diversify its product or service offerings. This helps reduce reliance on a single product line or industry and provides opportunities for crossselling to existing customers. The achievement of product diversification objectives depends on effective integration, marketing, and the ability to capitalize on the new product portfolio.

Synergy and Cost Savings: Companies may seek acquisitions to achieve cost synergies and operational efficiencies. Combining resources, eliminating redundancies, and streamlining processes can result in cost savings and improved overall performance. The successful realization of cost savings and synergies is a key driver of successful mergers and acquisitions.

Access to New Technology or Intellectual Property: Acquiring a company with valuable intellectual property or advanced technology can provide a competitive edge. It allows the acquiring company to access innovations and proprietary assets that might otherwise take significant time and resources to develop in-house. The achievement of this objective depends on integrating the technology seamlessly into the acquiring company's operations and leveraging it effectively.

Elimination of Competition: In some cases, companies may acquire competitors to gain a dominant position in the market or to reduce competition. By acquiring a rival company, the acquiring firm can expand its market share and potentially increase pricing power. However, such acquisitions may face regulatory scrutiny and challenges in integrating the two companies' cultures.

d)

i)

To compute the component cost of capital, we need to calculate the cost of each capital component: the cost of ordinary equity, the cost of preference shares, and the cost of debt (debentures). The formula for each component is as follows:

Cost of Ordinary Equity (Re):

Re = Dividend per share / Market value per share + Growth rate of dividends

Re = 1.20 / 100 + 0.20 (20% growth rate) = 0.012 + 0.20 = 0.212 or 21.2%

Cost of Preference Shares (Rp):

Since preference shares have a fixed dividend rate, the cost is simply the dividend rate divided by the market value per preference share.

Rp = Dividend rate / Market value per preference share

Rp = 60 / 50 = 1.20 or 1.2%

Cost of Debt (Rd):

Rd = Annual interest expense / Market value per debenture

Since the interest expense is 20% of the face value of the debentures and the market value of each debenture is sh. 80:

Rd = (20% * 100) / 80 = 0.25 or 25%

II)
The Weighted Average Cost of Capital (WACC) is the average cost of all the different sources of financing (equity, preference shares, and debt) used by a company to fund its operations. It represents the minimum return that a company needs to generate on its Signinvestments to satisfy both its equity shareholders and debt holders.

Significance

Investment Decisions: WACC is a crucial factor in capital budgeting decisions. It is used as a discount rate to evaluate potential investment projects. Any investment with an expected return higher than the WACC is considered acceptable, as it exceeds the cost of capital and creates value for shareholders.

Financial Planning: WACC helps in determining the optimal capital structure for a company. By evaluating the costs associated with different sources of capital, a company can strike a balance between equity and debt financing to minimize its overall cost of capital.

Performance Evaluation: WACC is used to assess a company's financial performance. If the return on invested capital is higher than the WACC, the company is generating value for its shareholders. Conversely, if the return is lower than the WACC, it indicates that the company is not generating sufficient returns to cover its cost of capital.

Merger and Acquisition Analysis: When a company considers acquiring another firm, the WACC is used to determine whether the potential acquisition will be accretive to the acquiring company's earnings. It helps in assessing whether the combined entity will generate enough return to justify the acquisition.

Cost of Capital Benchmark: WACC serves as a benchmark for the company's cost of raising capital. It helps management evaluate the attractiveness of various financing options and decide which sources of capital are the most cost-effective.