



NATIONAL OPEN UNIVERSITY OF NIGERIA

Plot 91, Cadastral Zone, Nnamdi Azikiwe Express

Way,

Faculty of Management Sciences
Department of Financial Studies,
Jabi-Abuja.
JULY 2017 Examination

Course Code: MBF843

Course Title: Capital Investment and Financial Decisions

Time Allowed: 3 Hours

Credit Unit: 3

Instructions: 1. Attempt Question 1 and any other THREE (3) Questions

2. Question 1 is compulsory and carries 25 marks while the other 3 Questions carry 15 marks each.

3. Present all your points in coherent and orderly manner.

1. a. Explain the concept of Net Present Value (NPV). 5 marks

b. A company runs a project for three years with the following distribution of possible returns in each year

Year 1		Year 2		Year 3	
Return	Probability	Return	Probability	Return	Probability
N000		N000		N000	
10,000	0.1	20,000	0.4	10,000	0.3
12,000	0.6	30,000	0.6	16,000	0.5
16,000	0.3			20,000	0.2

The project will cost the company 42 Million Naira to establish. Calculate the expected NPV if the discount rate is 10%

20 marks

2. Suppose a firm has to choose between two mutually exclusive projects that cost 193 million each. The following are the possible net cash flows of the project and their associated probabilities;

PROJECT X	NCF	PROJECT Y	NCF
PROBABILITY	N000	PROBABILITY	N000
0.10	3,000	0.10	2,000
0.20	3,500	0.25	3,000
0.40	4,000	0.30	4,000
0.20	4,500	0.25	5,000
0.10	5,000	0.10	6,000

Determine the standard deviation and the coefficient of variation for each project and advise which of them is preferable. **15**

marks

- 3.** Explain any five parameters under which you could classify Investments. **15 marks**
- 4.** How would you group the decisions that firms make. Mention and explain each of them briefly. **15 marks**
- 5. a.** Identify the major risk/uncertainty facing business organizations in the appraisal of long-term capital projects. **5 marks**

b. List the methods of analyzing such risk and/or uncertainty in investing decisions. **10 marks**
- 6a.** In relation to capital budgeting, what is the difference between risk and uncertainty? **7 marks**

b. What are the steps in strategic financial decision – making? **8 marks**