



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS & FINANCE

BACHELOR OF ECONOMICS & STATISTICS

EAE 412: PROJECT APPRAISAL

DATE:

TIME:

INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions
- (ii) Do not write on the question paper
- (iii) Show your workings clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Donors towards projects always demand for inclusion of sustainability plans in the proposals submitted for funding considerations. Explain the three kinds of project sustainability that must be detailed in the proposals (6 Marks)
- b) You are given the following three investments with the corresponding cash flows as in the table below to review for a business firm's consideration.

Investment (Millions)	Cash flows in each period			
	0	1	2	3
Project X	(900)	600	700	0
Project Y	(2,361.6)	1,000	1,000	1,000
Project Z	(1,500)	1,000	800	500

The market rate of interest is 8 % per annum. Use the IRR criterion to appraise the three projects and advise the firm (11 marks)

- c) Explain four approaches to factor risk in the appraisal of business projects (8 marks)
- d) Explain the rationale for cost benefit analysis in state financed projects (5 marks)

QUESTION TWO (20 MARKS)

- a) Machakos University management has observed increased cases of drug abuse among the students and prioritized it as a major social problem to address because it results to other problems with dire consequences on the image of the university as well as academic performance of the students. The management is planning a stakeholder forum to discuss this problems and come up with effective course of action to address it. The management has consulted you to help in preparations for this forum
- (i) list six major stakeholders to be invited to attend this forum (3 marks)
 - (ii) Develop a problem tree and an associated objectives tree that could be used to motivate the discussion on the problem (a minimum of two layers are required on both roots and branches sides) (9 marks)
- b) Explain the circumstances under which shadow pricing is used in valuation of resources. (8 marks)

QUESTION THREE (20 MARKS)

- a) You are thinking of drafting a project proposal to source for funding for start-up business after completing your studies. Explain the important qualities to ensure in the proposal to be developed (5 marks)
- b) Suppose Company A wants to launch a new branch in Kenya and the Managing Director (MD) has hired you to advise on the possible policy to adopt based on the forecasted economic growth rates. Each of the forecasted economic growth rates is associated with rates of return as indicated on the table below:

Policy	Economic growth (Kenya)			
	1%	2%	3%	4%
1	0	3	7	10
2	4	4	4	4
3	0	1	3	3
4	7	6	5	3

Required:

- (i) Suppose the management is optimistic about National economic growth rate, which policy will they choose? (3 marks)
 - (ii) Suppose that the policy makers are 80% pessimistic about National economic growth, which policy will they choose? (3 marks)
 - (iii) Suppose that the policy makers are unable to predict National economic growth rate, which policy will they choose? (3 marks)
- c) Compare and contrast the UNIDO and LM approaches of Social Cost Benefit analysis (6 marks)

QUESTION FOUR (20 MARKS)

Explain the five steps involved undertaking Social Cost Benefit analysis specifying the importance of each step in evaluation of public project

QUESTION FIVE (20 MARKS)

- a) Distinguish between the following terms as used in project appraisal and management
- (i) Project and Program (2 marks)
 - (ii) Appraisal and Evaluation (2 marks)
 - (iii) Return on investment and Internal rate of return (2 marks)
 - (iv) Economic analysis and financial analysis (2 marks)
 - (v) Project objectives and project outcome (2 marks)
- b) Describe the qualitative factors that organizations consider when making investment decisions (10 marks)