



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS,

BACHELOR OF ECONOMICS & FINANCE

BACHELOR OF ECONOMICS & STATISTICS

BACHELOR OF ARTS

EAE 412: PROJECT APPRAISAL

DATE: 25/7/2019

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY)(30 MARKS)

- a) A project idea can be conceived based on various issues. Identify six basic issues on which a youth group Machakos County could consider to conceive a project idea to process for implementation towards realization of sustainable human development. (6 marks)

- b) A car manufacturer has decided to make a significant investment into expanding its presence in East Africa by setting up a large assembly facility in Kenya. It has estimated its initial set up costs to be in the region of Kenya Shillings 6,300M.

Forecast net income from the project is detailed as follows:

Year 1, Kenya Shilling 1,400M

Year 2, Kenya Shilling 1,450M

Year 3, Kenya Shilling 1,550M

Year 4, Kenya Shilling 1,625M

Year 5, Kenya Shilling 1,480M.

Required;

Calculate the Net Present Value of the project using a discount factor of 5% and comment on the attractiveness of the project. (10 marks)

- c) Differentiate between social and private discount rate giving reasons why the social discount rate is advocated as appropriate in discounting values of public projects.

(10 marks)

- d) Give a distinction between the following:

- i) Problem tree analysis and alternative tree analysis
- ii) A program and a project

(4 marks)

QUESTION TWO (20 MARKS)

- a) You are working with an NGO and you have been selected to write a proposal which the NGO will use to source funds to initiate an intended program. Explain the outline that you will follow in drafting the proposal. (15 marks)
- b) What are some of the disadvantages of NPV project evaluation criterion? (5 marks)

QUESTION THREE (20 MARKS)

- a) Using the following pay off matrix, explain the decision making criteria appropriate to uncertainty as listed below the matrix

N S	1	2	3	4
1	2	2	0	0
2	1	1	1	1
3	0	4	0	0
4	0	3	0	0

- (i) The wald criterion
 - (ii) The minimax regret criterion
 - (iii) The index of pessimism criterion (index of optimism is 0.2) (6 marks)
- b) Explain the meaning of a merit good in the context of project appraisal and describe the procedure for adjusting the difference between the social and economic value. (6 marks)

- c) A Shadow price is the true or intrinsic price of a good/service and it reflects scarcity of resources in a given economy. Describe circumstances under which it should be applied. (8 marks)

QUESTION FOUR (20 MARKS)

- a) Explain how each of the following organizational factors influence project decisions:
- i. Controllability (4 marks)
 - ii. Endorsement (3 marks)
 - iii. Compatibility (3 marks)
- b) Suppose a company in Nairobi estimated that its operating costs are likely to be Kshs. 35,000 at the worst or below Kshs. 5000 at the best and gave their own best estimate of Kshs. 20,000.

Required: Calculate mean $\bar{X}$ and standard deviation using

- i. 3 point statistics
 - ii. Beta distribution (6 marks)
- c) Explain the attributes associated with a good investment project evaluation criterion. (4 marks)

QUESTION FIVE (20 MARKS)

- a) The government of Kenya is planning to construct a motor way connecting two busy towns, say Thika and Nairobi. The planner has consulted you as a specialist in the evaluation of public projects. Define and identify (with relevant examples) the following costs and benefits that would emanate from the project.
- i. Direct costs and benefits (4 marks)
 - ii. Indirect costs and benefits (4 marks)
 - iii. Tangible costs and benefits (4 marks)
- b) Explain the uses of sensitivity analysis in a project (8 marks)