MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR …….. SEMESTER XAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

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 working clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

a) A *project* is a complex set of activities where one can use resources in expectation of a payoff. In regard to this, classify projects into various categories. (12 marks)

b) Explain 5 stages involved with UNIDO approach to social cost benefit analysis of projects. (10 marks)

c) What is your understanding on the following terms used in project proposal writing?
- i) Operational indicators
- ii) Performance indicators
- iii) Project assumptions
- iv) Managerial sustainability (4 marks)

d) Explain the attributes associated with a good investment project evaluation criterion. (4 marks)

QUESTION TWO (20 MARKS)

a) Define risk as used in project appraisal and explain the various criteria used when making decisions on projects to invest in under risky situation. (10 marks)

b) Which are the stages followed during stakeholder analysis section of the participatory planning approach? (6 marks)

c) Give a distinction between the following:
   i) Problem tree analysis and alternative tree analysis
   ii) A program and a project (4 marks)

QUESTION THREE (20 MARKS)

a) 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)

b) Explain the qualitative aspects that may affect the choice of a project. (10 marks)

c) Differentiate between a tradable and non-tradable good. (2 marks)

QUESTION FOUR (20 MARKS)

a) What are the three key parameters that project managers must focus on? Explain them. (3 marks)

b) 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)

c) Consider a project with initial cost of Ksh. 12,000. The cost of capital is 9%. The project is considered to be risky hence a risk premium of 4% is proposed. The projected cash flows in the next five years are, Kshs. 2000, 3000, 2500, 3000, and 3500 respectively. Based on the Cost of Risk bearing criterion, what can you say about this project's viability? (7 marks)

QUESTION FIVE (20 MARKS)

a) The county Government of Machakos is planning to acquire a new machine for an income-generation youth project. It has two alternatives as follows;

		Machine X	**Machine Y**
Cost		Ksh.20,000	Ksh. 20,000
Estimated lifespan		4 years	4 years
Salvage value		4000	4000
Estimated net returns before depreciation	Year		
	1	10,000	12,000
	2	8,000	10,000
	3	7,000	8,000
	4	5,000	5,000
	5	5,000	5,000

Based on the return on investment criterion, which machine should be purchased? (8 marks)

b) 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)

c) 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)