

Question ONE-Compulsory

- a) State any 5 functions of corporate finance **(10marks)**
- b) Firm A has a value of Kshs. 100 million, and B has a value of Kshs.50 million. Merging the two would allow cost savings with a present value of Kshs. 25 million which is an economic gain from the merger.

Required :

- i. Determine the present value of the merger.
- ii. Calculate the cost of the merger if B is acquired for cash 65 M by firm A
- iii. Calculate the net economic advantage of the merger **(10marks)**

c) With reference to capital market, define the following terms:

- i) Contango operation **(2 marks)**
- ii) Backwardation **(2 marks)**
- iii) Stags **(2 marks)**
- iv) Role of investment banker **(4 marks)**

Question TWO

The dominant rationale used to explain Mergers & Acquisition activity is that acquiring firms seek improved financial performance. Explain some of the motives behind mergers **(20marks)**

Question THREE

- a) List and discuss ANY 5 defensive tactics against takeover **(10marks)**
- b) Examine the relative merits of leasing versus hire purchase as a means of acquiring capital assets. **(6 marks)**
- c) In relation to capital markets, differentiate between the terms stock markets and financial markets. **(4 marks)**

QUESTION FOUR

- (a) Describe the benefits to a country of integrating its financial markets with those of other countries. **(12 marks)**

d) The CMA (Capital Markets Authority) has put in place several tax incentives to encourage investments in capital markets. Highlight some of the tax incentives by the Capital Markets Authority. **(4 marks)**

c) The Nairobi Stock Exchange is set to undergo major changes in terms of services when the Central Depository System (CDS) is put in place after the Parliament passes the Bill on the issue.

i) How will it benefit the parties to be affected by it? **(4 marks)**

Question FIVE

In recent years, there has been a trend towards “cross-border” listing of securities of quoted companies. This has reduced the over-reliance by companies on domestic capital markets.

Required:

(a) Explain the meaning of “cross-border” listing. **(3 marks)**

(b) Identify and explain six reasons why companies in your country may seek “cross-border” listing. **(12 marks)**

(c) Identify five barriers to “cross-border” listing. **(5 marks)**

(Total: 20marks)