NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF HEALTH AND APPLIED SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	LEVEL: 7
COURSE CODE: CFN712s	COURSE NAME: CORPORATE FINANCE
SESSION: JULY	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	MR. PINEHAS NANGULA
MODERATOR:	Mekukuje Mbaha

INSTRUCTIONS	
	1. Answer ALL the questions.
	2. Write clearly and neatly.
	3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Scientific calculator
2. Pen and Pencil
3. Ruler

THIS QUESTION PAPER CONSISTS OF _3_ PAGES (Including this front page)

Question One [35 marks]

a) Suppose we are asked to decide whether or not a new consumer product should be launched. Based on projected sales and costs, we expect that the cash flows over the five-year life of the project will be N$2000 in the first two years, N$4000 in the next two year, and N$5000 in the last year. It will cost N$10 000 to begin production. We should use a 10 per cent discount rate to evaluate new products.

What should we do here? [15 marks]

b) If you deposit N$100 in one year, N$200 in two years, and N$300 in three years at 7 per cent per annum.

   i. How much will you have in three years? [3 marks]

  ii. How much of this is interest? [2 marks]

 iii. How much will you have at the end of five years if you don't add any additional amounts? Assume a 7 per cent interest rate per year. [5 marks]

c) Suppose you are looking at a bond that has a 10 per cent annual coupon and a face value of N$1000. There are 20 years to maturity and the yield to maturity is 8 per cent. What is the price of this bond? [10 marks]

Question Two (25 marks)

With clear examples, discuss the following terms:

   (a) Agency Problem [5 marks]

   (b) Agency Cost [5 marks]

   (c) Treasury Bill [3 marks]

   (d) Commercial Paper [3 marks]

   (e) Money Market [3 marks]

   (f) Capital Market [3 marks]

   (g) Bond [3 marks]

Question Three [40 marks]

a) Suppose we have the following investments:

Investment A   Investment B

Return (%)	Probability		Return (%)	Probability
15	0.20		14	0.20
17	0.45		19	0.45
21	0.35		24	0.35

You are required to determine which investment will be preferred using coefficient of variation.

All the best