

**UNIVERSITY OF SWAZILAND
FINAL EXAMINATION PAPER, 2011/12**

TITLE OF PAPER :

PROJECT DEVELOPMENT AND FINANCIAL ANALYSIS

COURSE CODE : ECON 308

TIME ALLOWED : TWO (2) HOURS

INSTRUCTIONS :

- 1. ANSWER ANY THREE QUESTIONS:**
- 2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH**

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Question 1

a) Find the discounted Payback Period given the following cash flows for Project A and determine whether the project should be undertaken if the desired Pay Back Period is 3 years. Assume the required rate of return on the project is 20%:

<u>Project A</u>	<u>Undiscounted Cash flows</u>
0	-35, 000
1	10, 000
2	15, 000
3	10, 000
4	20, 000
5	5, 000
6	15, 000

[9 marks]

b) Use the NPV approach to determine whether Project A should be undertaken.

[6 marks]

c) Consider the following cash flows of two projects A and B:

<u>Year</u>	<u>Cashflow A</u>	<u>Cashflow B</u>
0	30, 000	30, 000
1	20, 000	15, 000
2	10, 000	10, 000
3	10, 000	10, 000
4	5, 000	15, 000

Calculate return on capital employed for each project and use your results to determine which project is superior between the two.

[10 marks]

Question 2

“ **Projects** require sound **Plans**, successful **Plans** require sound **Projects**” Discuss.

[25 marks]

Question 3

a) Assume you are in the business of producing/publishing textbooks, and are currently considering producing a textbook for high schools in Swaziland. Your investigations indicate that the fixed costs associated with such a project are E40, 000, the variable costs are E1.20 per book and you can only sell the book at E2.00 per copy. You have also found that, given the existence of other producers, you cannot sell more than 40, 000 copies.

i) Using break-even analysis, determine if you should publish this textbook. Use diagrams to illustrate your answer.

[8 marks]

ii) Calculate the amount of profit/loss experienced by the company.

[5 marks]

b) A company is interested in an investment which would require a capital outlay of E6000 immediately and is expected to produce net cash inflows of E15, 000 per year for the first four years and E3, 000 in the fifth year. Also, assume that the management of the company has an 8% acceptable rate of return investment criteria. Would you advise the company to invest in the project? Show work.

[12 marks]

Question 4

a) Suppose a project has an initial cost outlay of E18, 000 and annual net cash flows of E5, 600 over 5 years, calculate the Internal Rate of return.

[10 marks]

b) Suppose one starts with E1000 cash flow which is compounded forward using variable interest rates of 10%, 20% and 15% over years 1, 2, and 3 respectively. Use Total Discount Factors (TDF) to compute the present values of the project over the three years.

[10 marks]

c) What the advantages and disadvantages of the NPV in project evaluation?

[5 marks]

Question 5

a) (i) Define Cost-Benefit Analysis (CBA) and explain the components of CBA

[6 marks]

(ii) Discuss factors that affect reliability of basic figures in CBA.

[7 marks]

(iii) Discuss the criticisms levelled against CBA.

[7 marks]

a) Write short notes on the importance of project planning.

[5 marks]

[9 marks]