KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ARTS AND BACHELOR

EAE 412: PROJECT APPRAISAL

DATE: THURSDAY 8TH FEBRUARY 2018 **TIME: 4.30 P.M. - 6.30 P.M.**

INSTRUCTIONS: Answer Question One and any other two questions.

QUESTION ONE

(a) Explain the following concepts as used in project planning and management:

- (i) participant analysis (2 marks)
- (ii) Logical Framework (2 marks)
- (iii) Project sustainability plan (2 marks)
- (iv) Financing agreement (2 marks)
- (v) Monitoring and evaluation framework (2 marks)

(b) Using relevant examples, discuss four circumstances under which shadow prices may be applied in evaluation of project flows. (8 marks)

(c) You have been appointed as the Director of Projects in your organization that deals with community based projects. Explain how you would ensure a prospective project presented to you is participatory. (12 marks)

QUESTION TWO

The following cash flows and discount rate information are given about four projects U, V, W and X each with a productive life of five years.

Cash Flow	Project U	Project V	Project W	Project X
Year zero	- $2,000,000	-$2,500,000	-$2,400,000	-$1,750,000
Year one	$500,000	$600,000	$1,000,000	$300,000
Year two	$500,000	$600,000	$800,000	$500,000
Year three	$500,000	$600,000	$600,000	$700,000
Year four	$500,000	$600,000	$400,000	$900,000
Year five	$500,000	$600,000	$200,000	$1,100,000
Discount Rate	6%	9%	15%	22%

(a) Compute NPV for each project (15 marks)

(b) Use the results obtained to advice a potential investor (5 marks)

QUESTION THREE

(a) Use appropriate examples to explain the importance undertaking cost Benefit analysis on public projects before implementation in developing countries. (12 marks)

(b) Describe any four ways in which risk can be considered during appraisal projects. (8 marks)

QUESTION FOUR

(a) The Standard Gauge Railway is one major infrastructure project in modern Kenya in which massive funds have been directed. Explain any three negative effects that the project may have on the society. (6 marks)

(b) Discuss the relevant details to provide in the following sections of a well written project proposal to be used to mobilize resources for an organization:

(i) Project context (3 marks)
(ii) Problem statement (3 marks)
(iii) Project implementation plan (5 marks)
(iv) Budget (3 marks)

QUESTION FIVE

You are contemplating to start up a business after clearing your college education to enable you keep out of unemployment. You have secured KES.10,000 from your college savings for this. Two alternative projects (A and B) each with an initial investment cost of KES10,000 are possible. The opportunity cost of capital is 14% and the net cash flows after tax over a period of six years for each project are as in the table below:

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A	2,500	4,000	6,000	15,000	20,000	20,000
B	6,000	10,000	12,000	8,000	10,000	10,000

(i) Compute the average rate of return on each project (8 marks)

(ii) Considering the financial market conditions, would it be worth to invest in any of projects? Explain your answer. (4 marks)

(iii) What are the limitations of using the average rate of return as the only approach to project decision in this case. (8 marks)

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