Moderated
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KENYATTA UNIVERSITY
SCHOOL OF ECONOMICS
DEPARTMENT OF APPLIED ECONOMICS
EAE 412 PROJECT APPRAISAL
2019/2020 SEM 2

Instructions: Answer questions ONE and any other TWO Questions.

Question One

a) Use a clear flow diagram to illustrate and demonstrate how an organization's management can combine strategic factors, financial pay off and intangible benefits in making project decisions (10 marks)

b) You have been appointed as consultant to undertake an in-depth study of the Sugar Value Chain in Kenya. As part of your responsibilities, you're required to establish the problems affecting the sector and the solutions thereof. With the aid to real life examples, explain how you can use the problem tree and alternative tree approaches to realize your objective (10 marks)

c) A public project has an initial cost of Kshs 6.4 million. The cost of capital is 10%. The projected cash flows for the project in millions of Kshs in the next six years are; 2.5m, 1.2m, 2m, 3m, 2.4m and 1.8m. It is further projected that from the third year, the project will be risky and will carry a risk premium of 4% over and above the basic rate. The residual or salvage value of the project is estimated at 1.2m. Using the Net Present Value establish whether the project should be implemented or not. (6 marks)

d) Explain the difference between the *Minimum regret* and *Maximin* criteria for project decisions under conditions of uncertainty (4 marks)

Question Two

a) The two basic approaches to Social Cost Benefit analysis are based on the UNIDO and Little-Mirlees (LM) procedures. While the UNIDO analysis measures costs and benefits in terms of domestic currency and follows a stage-by-stage process that focuses on efficiency, savings and redistribution considerations in different stages, the LM approach measures costs and benefits in terms of international(border) prices and tends to view the efficiency, savings and distributional issues together. The Little – Mirlees procedure are thus based on wild assumptions that tend to generalize economies but which often break down in most public project. Identify and explain four limitations of the LM procedure and its assumptions in the analysis of public projects (8 marks)

b) Project sustainability is one key issues that must be clearly explained when writing a competitive project proposal. Discuss any four forms of project sustainability (6 marks

c) Explain the four ways in which Social benefit analysis is different from Cost benefit analysis. (6 marks)

Question Three

a) State and briefly explain whether the following statements are TRUE or FALSE or UNCERTAIN (10 marks)

i) An investor may use Laplace criteria if he is unable to determine the probability of occurrence of a state of nature of a given project.

~~ii) Taxes are allowable in the computation of social costs and benefits~~ delete

~~iii) For a tradable good, the social value is measured by marginal consumer's willingness to pay if the project increases the consumption of the product in the economy~~ delete

iv) In the case of perfect markets, the shadow prices are equal to the market prices

v) The Benefit-Cost Ratio cannot discriminate between large and small investments

b) Discuss the reasons why economists advocate for the use of social rate of return in project evaluation as opposed to the private rate of return (10 marks)

c) Distinguish between the following terms

(i) Direct and indirect benefits 2mks

(ii) Risk situation and Uncertainty in Project design. 2mks

Question Four

a) Explain how the following factors are considered and evaluated in the shadow pricing of goods and services in the context of Social Cost Benefit analysis

(i) Tradability (3 marks)

(ii) Taxes and subsidies (3 marks)

(iii) Employment in the project people who were previously unemployed (4 marks)

b) You have been invited to a community workshop to lead a discussion on the potential projects that your community may engage in. Explain any five bases that your project ideas may be based on (10 marks)

Question Five

a) A community project is expected to improve the savings level of the beneficiaries. The expected income benefit for three groups as well as savings from the income gained is given in the table below. Explain how the UNIDO approach may be used to adjust for valuation of projects in this scenario (8 marks)

Group	Income gained	Saving level
A	15,000,000	25,000,000
B	40,000,000	10,000,000
C	60,000,000	10,000,000

b) Explain why the payback method is preferred as an approach to project appraisal despite its shortcomings (8 marks)

c) Explain how the results of sensitivity analysis could be used to arrive at a final decision on a project or policy (4 marks)