

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION 2012

TITLE OF PAPER: PROJECT DEVELOPMENT AND FINANCIAL ANALYSIS
COURSE CODE: ECON 308

INSTRUCTIONS: ANSWER QUESTION 1 AND ONE OTHER
QUESTION.

TIME ALLOWED : TWO (2) HOURS

TOTAL MARKS: 70

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY
THE INVIGILATOR.

Question 1 (Compulsory)

(a) Use your understanding of the importance of Planning in project implementation to analyze the following statement “ **Project managers who fail to plan, plan to fail**”

[10 marks]

(b) (i) Assume an initial investment cost of E25, 000 and net cash flows of E10, 000, 7, 000 and E6, 000 and E4, 000 over four years respectively. If the market rate of interest is 16%, use the Internal Rate of Return (IRR) criterion to determine if the investment is viable.

[10 marks]

(ii) Suppose the discounted payback period and the NPV were used in determining the viability of the project, would the result be in conformity with the result obtained in (b)(i) above given the 16% market interest rate if management requires a three year payback period on the project?

[12 marks]

(c) The marketing department of Guaranteed Success Investment Managers has estimated that output for its new product will be 50, 000 units per year. The selling price will be E18 per unit and the fixed costs are E40, 000 while its variable costs are E9 per unit. Management has approached you for advice on whether they should launch the new product or not.

As an analyst, compute the company’s breakeven point and calculate the amount of profit/loss for the company.

[10 marks]

(d) A project yields net cash inflows of E14, 000 for the first three years and E18, 000 for the next two years and E18, 000 and 15, 000 in the sixth year. If management has a 12% acceptable rate of return investment criteria given a capital outlay of E52, 000. Would you advise the company to invest in the project? Show your workings.

[8 marks]

Question 2

Using an industry of your choice, define a project and provide a detailed explanation of a project life cycle.

[20 marks]

Question 3

“Cost-Benefit Analysis is a very useful concept in project evaluation. However, it does not always provide accurate results.” Discuss.

[20 marks]