Ser. No. BBM 058/17

GARISSA UNIVERSITY

UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR FOUR FIRST SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 414

COURSE TITLE: INVESTMENT PORTFOLIO MANAGEMENT

EXAMINATION DURATION: 3 HOURS

DATE: 08/12/17 **TIME: 2.00-5.00 PM**

INSTRUCTION TO CANDIDATES

- **The examination has FIVE (5) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FOUR (4) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

This paper consists of TWO (2) printed pages ***please turn over***

QUESTION ONE (COMPULSORY)

(a) Define capital market line and security market line **[4 marks]**
(b) Discuss the following individually **[8 marks]**

i. good portfolio
ii. good investments
iii. negative securities
iv. Superior portfolio

(c) Define simple diversification. Will simple diversification reduce total risk? Explain. **[10 marks]**
(d) Is utility theory useful for modeling the decision-making processes used by large corporations and governments? Explain. **[8 marks]**

QUESTION TWO

(a) Explain the following risks furthermore defining each. **[8 marks]**

i. no diversifiable risk
ii. market risk
iii. random risk
iv. company specific risk

(b) Will simple diversification reduce diversifiable risk? Why or why not **[12 marks]**

QUESTION THREE

(a) Explain the following types of investors. Use a diagram where necessary. **[8 marks]**
i. risk averse
ii. risk natural
iii. risk seekers
iv. risk moderate

(b) Define superfluous diversification. What problems frequently result from superfluous diversification? **[12 marks]**

QUESTION FOUR

(a) Illustrate capital market line and security market line **[10 marks]**
(b) Investors face constrains that keep them from maximizing the happiness they can hope to derive from their investments Explain. **[10 marks]**

QUESTION FIVE

(a) If an investor sets out to maximize their wealth, would this person ever have any use for the one-period rate of return measures? Explain. **[10 marks]**
(b) Discuss the efficient market theory **[10 marks]**