



GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR THREE
SECOND SEMESTER EXAMINATION**

SUPPLEMENTARY/SPECIAL EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 313

COURSE TITLE: ASSET VALUATION AND MANAGEMENT

EXAMINATION DURATION: 3 HOURS

DATE: 29/09/17

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- **The examination has FIVE (5) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) 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 THREE (3) printed pages

please turn over

Supplementary / special exam

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Good Luck – Exams Office



QUESTION ONE (COMPULSORY)

(a) Distinguish between the following terms

i. Premium bond and Discount bond [2 marks]

ii. Systematic risk and unsystematic risk [2 marks]

iii. Call option and Put option [2 marks]

(b) Mororo Industries has just paid the 2015 annual dividend of Sh. 2.50 per share. The firm's financial manager expects that these dividends will increase at 9% annual rate over the next 4 years. At the end of the 4 years, (end of 2019) the growth rate will decline to 5% for the foreseeable future. The firm's required rate of return is 12%. Estimate the current value of Mororo Industries share. [12 marks]

(c) Faida Traders has two investments A & B with the following characteristics:

Investment	Standard deviation (%)	Proportion
A	25	3/5
B	30	2/5

Required:

Compute the portfolio standard deviation if the correlation coefficient between the assets 0.75 [7 marks]

QUESTION TWO

(a) Outline five assumptions capital asset pricing model [5 marks]

(b) Fanaka Ltd has issued a bond which is currently selling for Sh.2,500. The bond has a 9% coupon rate and Sh.2000 par value. The bond pays interest annually and has 10 years to maturity. Determine the yield to maturity of the bond. [10 marks]

QUESTION THREE

Imara Holdings has three assets with the following distribution of returns.

Probability of occurrence	Rate of return (%)		
	A	B	C



0.15	9	6	12
0.25	9	7	10
0.3	9	9	9
0.2	9	10	7
0.1	9	12	6

REQUIRED:

- i. Compute the expected return of each asset **[3 marks]**
- ii. Compute the standard deviation of each asset. **[9 marks]**
- iii. Compute the covariance of asset B and C **[2 marks]**
- iv. Compute the correlation coefficient of asset B and C. **[1 marks]**

QUESTION FOUR

Hassan is interested in writing a six-month call option on JamboLtds share which is currently selling for shs. 150. The volatility of the share returns is estimated as 56 per cent. Hassan would like the exercise price to be shs. 150. The risk-free rate is assumed to be 10 per cent.

Determine

- i. Value of call **[8 marks]**
- ii. Value of put **[7 marks]**

QUESTION FIVE

- (a) Clearly distinguish between futures and forwards **[2 marks]**
- (b) Describe the classification of real estate investment trusts (REITs) **[5 marks]**
- (c) Briefly discuss the various forms of efficient market hypothesis **[8 marks]**

