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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR ONE**

**FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 830**

**COURSE TITLE: INVESTMENT ANALYSIS & PORTFOLIO MANAGEMENT**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 10/08/18 TIME: 09.00-12.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has SIX (6) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other THREE (2) 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***

**QUESTION ONE (COMPULSORY)**

1. Giving examples, explain four bases of classification of financial markets and their functions  **[4 marks]**
2. Explain four benefits that a company would accrue by listing at the Nairobi Securities Exchange **[4 marks]**
3. The finance manager of Jambo ltd is considering investing in two risky projects. He is in a dilemma as whether to invest in each individually or in both jointly in a 50/50 portfolio. He has provided you with the following information.

**State of economy Probability of cash flows Return on Return on**

**Project A Project B**

Very bad 0.2 14% 12%

Bad 0.3 17% 11%

Average 0.3 20% 10%

Good 0.1 24% 8%

Very good 0.1 26% 10%

Advice the manager on the best option **[7 marks]**

**QUESTION TWO**

1. James has obtained sh. 4,500,000 to invest, he is considering a portfolio with two assets (Y and M with sh. 2,000,000 being invested into M). Details of possible returns are shown below:

**Probability**  **Asset X Asset Y Market Portfolio (M)**  
 0.40 10% 12% 18%

0.20 8% 10% 11%

0.40 6% (5%) 10%

The market pays a 14% return on risk-free assets

1. Compute the C*oefficient of Variation* for asset X and advise accordingly **[5 marks]**
2. Compute the *systematic risk* of the investment and advise James accordingly **[6 marks]**
3. Explain the factors that influence the efficiency of a portfolio **[4 marks]**

**QUESTION THREE**

1. Consider the following information:

|  |  |  |  |
| --- | --- | --- | --- |
| State of economy | Probability | Rate of return if state occurs | |
| Stock A | Stock B |
| Boom | 0.15 | 30% | 45% |
| Good | 0.45 | 12% | 10% |
| Poor | 0.35 | 1% | -15% |
| Bust | 0.05 | -20% | -30% |

Suppose your portfolio is invested 60% in A and 40% in B. What is the expected return of the portfolio **[4 marks]**

1. Kish Investment Fund has a total capital of Kshs. 500 million invested in five stocks as below:

|  |  |  |
| --- | --- | --- |
| Stock | Investment | stock ‘s Beta coefficient |
| A | 160, 000,000 | 0.5 |
| B | 120, 000,000 | 2.0 |
| C | 80, 000,000 | 4.0 |
| D | 80, 000,000 | 1.0 |
| E | 60, 000,000 | 3.0 |

Using CAPM and assuming that risk free rate is 5% and expected market return is 9%, calculate

1. Expected return for each stock **[5 marks]**
2. Expected return for Kish Investment Fund portfolio **[2 marks]**
3. Kish Investment Fund portfolio beta **[4 marks]**

**QUESTION FOUR**

1. Identify and briefly explain the strategies for investing in stock **[6 marks]**
2. Discuss the two basic approaches to stock analysis for investment decision making **[9 marks]**

**QUESTION FIVE**

1. Identify and briefly explain the strategies for investing in bonds **[5 marks]**
2. Giving advantages and disadvantages of investing in bonds, discuss how options can be used as investments **[10 marks]**

**QUESTION SIX**

1. Explain the concept ‘term structure of interest rates’ giving its applications **[6 marks]**
2. Briefly explain the concept of efficient market hypothesis (EMH) and each of its three forms.  **[9 marks]**