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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2018/2019 ACADEMIC YEAR ONE**

**SECOND 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: 18/04/19 TIME: 09.00-.11 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) 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 THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss your understanding of a market portfolio in view of a *Stock Market Index* **(4 marks)**
2. Describe two key features of true investment as opposed to speculation **(4 marks)**
3. Ross (1977) developed the Arbitrage Pricing Theory (APT) as a superior asset pricing model. Discuss three forms of unanticipated changes in markets that are presumed to influence prices of financial assets **(6 marks)**
4. A foreign investor is contemplating investing in Kenyan stock market. Describe three economic analysis factors that should concern such an investor **(6 marks)**
5. Explain two forms of stock market anomalies which effectively contradict efficient markets hypothesis **(4 marks)**
6. Giving examples, explain the concept of Over-The-Counter (OTC) in the context of markets for derivatives **(4 marks)**
7. Describe any two types of financial securities that may use as an investment vehicle in Kenya **(2 marks)**

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**QUESTION TWO**

1. An investor, with sh. 1,500,000 to invest, is considering a portfolio containing two assets (Y and M with sh. 600,000 being invested into asset M) despite there being 3 assets in the market. Details of the investment environment and possible returns are shown below:

 **Probability**  **Asset X Asset Y Market Portfolio (M)**
 0.30 15% 10% 14%

0.60 13% 7% 16%

* 1. 4% (6%) 6%

The market pays a 7% return on risk-free assets.

1. *Compute* the risk and returns of assets X and Y and comment on the outcome **(4 marks)**
2. *Compute* the beta factor of asset Y and interpret the same **(4 marks)**
3. Explain two reasons why financial markets out to be regulated especially considering asymmetric information challenges **(5 marks)**
4. Explain two assumptionsof Capital Asset Pricing Model (CAPM) **(2 marks)**

**QUESTION THREE**

1. Discuss two forms of *bond management strategies* **(4 marks)**
2. An investor, with sh. 2,000,000 to invest, is considering a portfolio with two assets (X and Y with sh. 350,000 being invested into Y). Details of possible returns of the two assets and the market portfolio are shown below:

 **Probability**  **Asset X Asset Y Market Portfolio**
 0.40 13% 12% 18%

0.20 8% 7% 19%

 0.40 4% (3%) 10%

 **Beta factor…………………………. 1.30**  **1.75**

The market pays a *10% return on risk-free assets*. Assume *a covariance of 1.40* between asset *X and Y*.

**Required:**

1. Compute the *Sharpe’s Measure* and comment on the portfolio performance **(3 marks)**
2. Compute the *Treynor’s Measure* and comment on the portfolio performance **(3 marks**)
3. Explain the *difference* between active and passive portfolio management **(5 marks)**

**QUESTION FOUR**

1. 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 **(8 marks)**

1. Explain the challenges that Capital Markets Authority (CMA) would face in the course of regulating the capital market in Kenya **(7 marks)**

**QUESTION FIVE**

1. Describe the key steps in investment process **(5 marks)**
2. Suppose your portfolio is invested 60% in A and 40% in B. What is the expected return and risk of the portfolio using the information give below: **(7 marks)**

|  |  |  |
| --- | --- | --- |
| 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% |

1. Discuss three reasons why *government intervention* in financial markets may not often succeed **(3 marks)**