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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 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: 08/04/2021 TIME: 3.00-5.00 PM**

**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. Giving examples, explain four bases of classification of financial markets and their functions

(6 marks)

1. Explain four benefits that a company would accrue by listing at the Nairobi Securities Exchange

(4 marks)

1. Giving examples, describe the steps in the investment management process (6 marks)
2. Explain the stock analysis approaches for investment decision making (8 marks)
3. Explain the different financial investment vehicles that you know (6 marks)

**QUESTON TWO (15 MARKS)**

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 (15 marks)

**QUESTON THREE (15 MARKS)**

1. Explain the factors that influence the efficiency of a portflio (4 marks)
2. 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.

1. Determine the expected return of the portfolio (4 marks)
2. Determine the portflio risk (7 marks)

**QUESTON FOUR (15 MARKS)**

1. Differentiate between Capital Market Line (CML) and Security Market Line (SML) (4 marks)
2. 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)

**QUESTON FIVE (15 MARKS)**

1. Identify and explain the strategies for investing in bonds (6 marks)
2. Explain the concept ‘term structure of interest rates’ giving its applications (4 marks)
3. Explain the concept of efficient market hypothesis (EMH) and each of its three forms. (5 marks)