



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** 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: 3 HOURS

**DATE: 17/04/18**

**TIME: 09.00-12.00 PM**

---

### INSTRUCTION TO CANDIDATES

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



### QUESTION ONE (COMPULSORY)

- (a) Investment environment can be defined as the existing investment vehicles in the market available for investor and the places for transactions with these investments. Describe four main types of financial investment vehicles **[8 marks]**
- (ii) Explain the role of financial markets as a component of investment environment **[6 marks]**
- (b) Describe the aspects that make Investment in financial assets differ from investment in physical assets **[6 marks]**
- (c) Explain the five-step procedure of Investment management process **[10 marks]**

### QUESTION TWO

You are given the following information about investment projects A and B

Expected return for stock A = 18%

Expected return for stock B = 25%

Standard deviation of stock A = 12%

Standard deviation of stock B = 20%

Correlation coefficient = 1,0

#### Required

Choose the investment below that represents the minimum risk portfolio

- i. 100% invest in stock A;
- ii. 100% invest in stock B;
- iii. 50% in stock A and 50% in stock B;
- iv. 20% invest in stock A and 80% in stock B
- v. 60% invest in stock A and 40% in stock B.

**[10 marks]**

### QUESTION THREE

Explain the following two strategies for investing in stock and their essentialities

- (a) Sector rotation and business cycle strategy **[5 marks]**
- (b) Market timing strategy **[5 marks]**



**QUESTION FOUR**

An investor owns a portfolio of four securities. The characteristics of the securities and their proportions in the portfolio are presented in the table.

Security	Coefficient Beta	Proportion %	Expected rate of return %
A	1,40	30	13
B	0,90	30	18
C	1,00	20	10
D	-1,30	20	12

- (a) What is the expected rate of return of this portfolio? **[2 marks]**
- (b) What is the risk of the portfolio? **[3 marks]**
- (c) If the investor wants to reduce risk in his portfolio, how could he restructure his portfolio **[5 marks]**

**QUESTION FIVE**

Differentiate between the following terms as used in investment analysis

- (a) CAPM and APT model of investment analysis **[4 marks]**
- (b) Business risk and financial risk **[3 marks]**
- (c) Covariance and correlation coefficient **[3 marks]**

**QUESTION SIX**

- (a) Explain the concept of efficient market hypothesis and capital market efficient as proposed by Harry Roberts and Eugene Fama **[4 marks]**
- (b) Identify and explain the 3 forms of market efficiency **[6 marks]**

