W1-2-60-1-6

UNIVERSITY EXAMINATIONS 2015/2016

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

HBF 2303: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

DATE: APRIL, 2016   **TIME: 2HOURS**

INSTRUCTIONS: Answer Question one and any other two questions.

QUESTION ONE: Compulsory

a) Define an investment environment   (2marks)

b) Highlight three main short term investment vehicles   (3 marks)

c) Explain two economic functions performed by financial markets   (4 marks)

d) A Given the following data for Homeland's stock. The expected return based on the data is 14%.

Possible rate of return	Probability %	Return %
Worst case	10	10
Base case	80	14
Best case	10	18

Required: Compute the stock's variance and standard of deviation   (6 marks)

e) Explain the significance of a stock's characteristic line to an investment analysts

(6 marks)

f) Explain the two mutual fund theorem   (5 marks)

g) Distinguish between Capital Asset Pricing Model and arbitrage pricing theory (4marks)

QUESTION TWO

a) Explain the stages in a financial management process   (10 marks)

b) Assume the following for Asset XYZ: $r_{rf} = 3\%$, $r_m = 10\%$, $B_a = 0.75$. By using CAPM, calculate the rate of return that an investor should demand for investing in Asset XYZ:

(10 marks)

QUESTION 3

i.   Assume an investment manager has created a portfolio with Stock A and Stock B. Stock A has an expected return of 20% and a weight of 30% in the portfolio. Stock B has an expected return of 15% and a weight of 70%. What is the expected return of the portfolio?   (4 marks)

ii. Briefly explain three practical uses of the capital asset pricing model.   (6 marks)
iii. Describe the random walk theory   (10 marks)

QUESTION 4

a) Highlight the assumptions of the capital market efficiency theory   (10marks)

b) What aspects should you take into account while monitoring changes in the investor's circumstances   (4 marks)

c) Discuss the key characteristics of `active' fund management, focusing in particular on how the objectives of active management differ from those of passively managed funds.
(6marks)

END

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HBF 2303: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

CONTINUOUS ASSESSMENT TESTS (CAT)

DATE: APRIL, 2016   **TIME: 1 HOUR**

INSTRUCTIONS: Answer all the questions.

1. Assume that an analyst writes a report on a company and, based on the research, assigns the following probabilities to next year's sales:

Scenario	Probability	Sales ($ Millions)
1	**0.10**	$16
2	0.30	$15
3	0.30	$14
4	0.30	$13

   Calculate the expected value for next year's sales and the variance   (8 marks)

2. Explain the key assumptions underlying the CAPM?   (8 marks)
3. Describe the market demand   (4 marks)
4. Describe main disadvantages of common stock   (8 marks)
5. What are the two areas to monitor when implementing investor's portfolio monitoring

                                                                                       (2 marks)

                        END