W1-2-60-1-6

UNIVERSITY EXAMINATIONS 2016/2017

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

HBF 2303: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

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

INSTRUCTIONS: Answer Question one and any other two questions.

QUESTION ONE

a) Explain the Mutual Fund Theorem (2marks)

b) Distinguish between real assets and financial assets (3 marks)

c) Distinguish between passive and active investment management with regards to aim, nature of the investor, taxes, analytical methods, turnover (5 marks)

d) Discuss the Random walk theory (6 marks)

e) Mr. Belly invested $60,000 in airtel that produced 20% returns and $40,000 in Safaricom that produced 12% returns. The weights of the two investments are 60% and 40% respectively. Calculate his return on portfolio (4 marks)

f) Highlight four characteristics upon which the classification of financial markets are based (4 marks)

g) Distinguish between fundamental analysis and Technical analysis (6 marks)

QUESTION TWO

a) Explain the stages in a financial management processs? (10 marks)

b) Discuss key reasons that would hinder an investor from taking up common stock compared to other investment vehicles. (10 marks)

QUESTION 3

a) While conducting E-I-C analysis, investors evaluate various contents of macroeconomic environment. Explain these contents and how they influence investor decisions.(10 mark)

b) Consider an investment in Asset A and B below (10 marks)

Economic State	**Probability**	**Asset A Return (%)**	**Asset B Return (%)**
Boom	20%	22	6
Normal	55%	14	10
Recession	25%	7	12

Calculate the expected return, Variance and the covariance of the two Assets.

QUESTION 4

a) Explain the meaning of the following types of bonds (10marks)

- General obligation bonds
- Guaranteed bonds
- Participating bonds
- Revenue bonds

b) Assume the following for Asset ABC: 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 ABC:

(10 marks)

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CONTINUOUS ASSESSMENT TEST

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

INSTRUCTIONS: Answer all questions

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1. Highlight two types of investing in an economy (2 marks)
2. The data below is for a company that has been in operation for ten years. 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)

3. Highlight two advantages that accrue to investors when they choose to invest in bonds over other investment options. (2 marks)

4. Bond investors consider various aspects of an organization which are not quantifiable to assess viability of a firm for investment. Explain four of these aspects. (8 marks)

5. What is covariance f a security? Explain the significance of the following degrees of covariance. (7 marks)

- Positive, Negative, Zero

6. Calculate the current yield of a zero-coupon bond that has a future value of $1,000 that matures in two years and can be currently purchased for $925. (3 marks)