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**University Examinations 2014/2015**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR MASTER OF BUSINESS ADMINISTRATION

**BFA 5229: INVESTMENT & PORTFOLIO MANAGEMENT**

**DATE: APRIL 2015 TIME:** $2 $**HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. By use of illustrations , explain the difference between;
2. Systematic risk and unsystematic risk (5 Marks)
3. Capital market line and security market line (5 Marks)
4. Briefly discuss the strategies for managing debt securities by firms. (10 Marks)
5. You were intending to buy any of the following two securities A and B from NSE market. You consulted the brokers who gave the following estimates of these securities returns and the returns from the market:

No. of brokers Estimated returns %

 A B NSE index

12 15 6 5

36 24 22 14

48 20 18 16

24 17 18 12

Assuming the returns on short term government securities during the period was 4%.

**Required:**

1. Use CAPM to find which of the two securities A and B you will choose assuming they are mutually exclusive. (10 Marks)
2. Suppose you decided to buy both of the two securities A and B above, calculate the risk of the portfolio consisting of A and B assuming you invested a total of Ksh 2 million in total out of which Ksh 1.5 million were invested in A and the rest in B. (10 Marks)

**QUESTION TWO (20 MARKS)**

1. Discuss the advantages of cross border listing to a firm which has been cross listed over two or more international stock exchanges. (8 Marks)
2. Discuss ways in which firms trading internationally can hedge against foreign exchange exposures. (12 Marks)

**QUESTION THREE (20 MARKS)**

1. Explain the limitations of traditional portfolio performance measures. (4 Marks)
2. The following are the returns on three portfolios X,Y and Z and that of Nairobi Stock Exchange index and short term government treasury bill over 5 years periods:

 Portfolio

Periods; NSE index X Y Z T-Bill

1 0.8 1.0 -0.5 1.0 0.4

2 1.2 1.5 -1 1.0 0.5

3 1.9 1.7 2 1.0 0.6

4 -2.0 -1.0 3 2.0 0.5

5 1.8 3.0 0.5 2.0 0.6

**Required:**

Evaluate the performance of the above portfolio using:

1. Sharp measure (5 Marks)
2. Treynor measure (5 Marks)
3. Jensen Alpha (6 Marks)

**QUESTION FOUR (20 MARKS)**

1. Investments , speculations and gambling are often confusing. Discuss the difference between each. (8 Marks)
2. By use of examples, briefly discuss the investment process. (12 Marks)

**QUESTION FIVE (20 MARKS)**

1. Briefly discuss the following approaches to management of equity portfolios by companines:
2. Active management (5 Marks)
3. Passive management (5 Marks)
4. Enhanced indexing (5 Marks)
5. Explain the difference between technical and fundamental analysis. (5 Marks)