JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION

FOR DEGREE OF BACHELOR OF BUSINESS

ADMINISTRATION WITH IT

3RD YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR

NAMBALE LEARNING CENTRE

COURSE CODE: ABA 320

COURSE TITLE: INVESTMENT AND PORTFOLIO

EXAM VENUE: BUSIA **STREAM**

DATE: **EXAM SESSION:**

TIME: 2.00 HOURS

Instructions:

1. Answer question 1 (compulsory) and ANY other 2 questions.

2. Candidates are advised not to write on the question paper.

3. Candidates must hand in their answer booklets to the invigilator while in the examination room.

QUESTION ONE

a) A Security returns depend on only three risk factors-inflation, industrial production and the aggregate degree of risk aversion. The risk free rate is 8% and the required rate of return on a portfolio with unit sensitivity to inflation and zero-sensitivity to other factors is 13.0%, the required rate of return on a portfolio with unit sensitivity to industrial production and zero sensitivity to inflation and other factors is 10% and the required return on a portfolio with unit sensitivity to the degree of risk aversion and zero sensitivity to other factors is 6%. Security i has betas of 0.9 with the inflation portfolio, 1.2 with the industrial production and -0.7 with risk bearing portfolio—(risk aversion)

Assume also that required rate of return on the market is 15% and stock i has CAPM beta of 1.1

Required:

Compute security i's required rate of return using

    a) CAPM   **(5marks)**

    b) APT   **(5marks)**

b)Highlight some of the features of warrants **(10marks)**

c)Discuss the 5 investment management processes **(10marks)**

QUESTION TWO

a)Outline four limitations of the use of ratios as a basis of financial analysis.   **(4 marks)**

b)Calculate three-day moving average for the prices of stock in December 2009?

Date	1	2	3	4	5	6	7	8	9	10
Closing prices (sh.)	68.90	68.00	68.10	66.50	62.60	63.70	60.90	60.45	60.10	58.75

                                                   (6 Marks)

b) When analyzing stock, future contract or currency using fundamental analysis, there are two basic approaches used. Briefly discuss the 2 approaches. (**5 Marks)**

c) Explain the differences between the capital asset pricing model (CAPM) and the arbitrage pricing theory (APT).   **(5Marks)**

QUESTION THREE

a) State any 5 specific type of risk that one may encounter in the process of managing an business entity (**10Marks)**

b) Assume a project costs Sh 30,000 and yields the following uncertain cashflows:

Year	Cashflow
1	12,000
2	14,000
3	10,000
4	6,000

Assume also that the certainty equivalent coefficients have been estimated as follows:

$$\alpha_0 = 1.00$$

$$\alpha_1 = 0.90$$

$$\alpha_2 = 0.70$$

$$\alpha_3 = 0.50$$

$$\alpha_4 = 0.30$$

The risk-free discount rate is given as 10%

Required Compute the NPV of the project (**10marks)**

Hint $NPV = \sum_{t=0}^{n} \dfrac{\alpha_t C_t}{(1 + Kf)^t} - I_o$

QUESTION FOUR

a)ABC Company is being formed to make a 1 year investment in producing and marketing presidential campaign badges. The firm requires an investment of Sh 10,000,000 of which Sh 7,500,000 will be obtained by selling debt with a 10% interest rate and the other Sh 2,500,000 will be raised by selling common shares. All cash distribution to debt holders and shareholders will be made at the end of the one year. After this year is over the value of the firm will depend primarily on which candidates make it through the primary elections. The estimated probability of distribution of the firm is:

Probability	Value `000'
0.7	20,000
0.2	5,000
0.1	0

Consider the shareholders' value under the three states of nature and under the expected value.
(10Marks)

b)List and discus ANY 5 methods or tools of analysis and interpretation of Financial Statement
(10Marks)

QUESTION FIVE

From the following Profit and Loss Account, you are required to convert into Comparative Profit and Loss Account for the year 2002 and 2003and interpret your answer:

.   Profit and Loss Account for the Year 2002 and 2003

Particulars	2002 Rs.	2003 Rs.	Particulars	2002 Rs.	2003 Rs.
To Cost of goods	1,18,000	1,47,000	By Net Sales	2,00,000	2,25,00
To Gross Profit *cld*	82,000	78,000			
	2,00,000	2,25,000		2,00,000	2,25,00
To General & s}			By Gross Profit *bId*	82,000	78,000
Administrative Expenses	5,000	6,000			
To Selling & Distribution			Income	10,000	15,00
Expenses	7,000	8,000			

To Non-Operating	5,000	7,000			
To Net Profit *cld*	75,000	72,000			
	92,000	93,000		92,000	93,000

(10Marks)

(b)

i) Discuss the important objectives of financial statements. **(10marks)**
ii) Write short notes on:

(a) Horizontal Analysis.   3marks
(b) Vertical Analysis.   3marks
(c) External and Internal Analysis.   4marks   **(10marks)**