



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE
AND TECHNOLOGY**

UNIVERSITY EXAMINATION 2012/2013

**2ND YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION
(KISUMU LEARNING CENTRE –SB)**

COURSE CODE: MBA 822

COURSE TITLE: SECURITY ANALYSIS AND VALUATIONS

DATE: 30/4/2013

TIME: 9.00-12.00 NOON

DURATION: 3 HOURS

INSTRUCTIONS

- 1. This paper contains SIX (6) questions**
- 2. Answer ANY 4 Questions**
- 3. Write all answers in the booklet provided**

QUESTION ONE

- a) Define the term “Technical Analysis” **(2 Marks)**
- b) Explain briefly the following terms thesis used in technical analysis
 - i.) Dow Theory **(3 Marks)**
 - ii.) Elliott wave principle **(3 Marks)**
 - iii.) Chaos Theory **(3 Marks)**
 - iv.) Neutral Networks **(3 Marks)**

QUESTION TWO

- a) What is the difference between a security broker and a securities dealer? **(3 Marks)**
- b) Which is bigger, the bid price or the ask price? and Why? **(4 Marks)**
- c) What are the four types of members of the New York Stock Exchange. **(4 Marks)**
- d) How does NASDAQ differ from the NYSE? **(4 Marks)**

QUESTION THREE

- a) In relation to industry analysis and the fundamental security analysis, explain briefly three stages of an industry growth cycle. **(9 Marks)**
- b) Give four reasons for decline of the competitive position of an industry. **(6 Marks)**

QUESTION FOUR

Debt securities offer different yields because they exhibit different characteristics that influence the yield to be offered. In general, securities with unfavorable characteristics will offer higher yields to entice investors. Yet some debts have favorable features as well.

Explain briefly the following relevant characteristics of any security that can affect the security’s yield.

- i.) Credit (default risk) **(3 Marks)**
- ii.) Liquidity **(3 Marks)**
- iii.) Tax status **(3 Marks)**
- iv.) Term to maturity **(3 Marks)**
- v.) Special provision **(3 Marks)**

QUESTION FIVE

- b.) Define the term structure of interest rate. **(3 Marks)**
- a.) Explain the following three theories used to determine the relationship between maturity and annualized yield of securities. Where possible. Include graphs in the explanations.
- i. Pure Expectation Theory **(4 Marks)**
 - ii. Liquidity Premium Theory **(4 Marks)**
 - iii. Segmented Markets Theory **(4 Marks)**

QUESTION SIX

- a) Hocus plc expects to pay a constant dividend of £ 450,000 at the end of every year for ever (in perpetuity). Assuming that a dividend has just been paid, calculate what the market value of Hocus plc's shares ought to be if its shareholders' cost of capital is 15%. **(4 Marks)**
- b.) Pocus plc paid a dividend this of £3,000,000. The company expects the dividend to rise by 2% a year in perpetuity. This expectation is shared by the investors in the stock market. The current return expected by the investors from shares in the same industry as pocus plc is 11%
- i.) What would you expect the total market value of the shares of the pocus plc to be?**(2 Marks)**
 - ii.) If it is now rumored in the stock market that interest rates are about to rise and so shareholders will want to earn an extra 1% on their shares. What change would you expect in the value of the shares of Pocus plc? **(3 Marks)**
 - iii.) What conclusion do you draw from this example? **(2 Marks)**
- c) The management of Cocus plc are trying to decide on the dividend policy of the company. There are two options that are being considered.
- i.) The company pay a constant annual dividend of 8p per share (3marks)
 - ii.) The cop any could pay a dividend of 6 per share next year, and use the retained earnings to achieve an annual growth of 3% in dividends for each year after that. (3marks)

The shareholders cost of capital is thought to be 18% .Which dividend policy would maximize the wealth of shareholders, by maximizing the share price? **(4 Marks)**