

Jaramogi Oginga Odinga University of Science & Technology

DEPARTMENT OF BUSINESS AND ECONOMICS

ABA 320: INVESTMENT AND PORTFOLIO MANAGEMENT

Date:.....

Time: 5:30pm – 7:30pm

THIRD YEAR SECOND SEMESTER EXAMINATION

FOR

THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION

(CITY CAMPUS)

INSTRUCTION

- Question ONE is compulsory, and MUST be attempted
- Read each question carefully and attempt 3 questions out of the 4.
- Show all your workings clearly.

QUESTION ONE

- i) Mention and explain key roles the financial markets play in modern economy 10mks
- ii) Differentiate between a discount yield and a bond equivalent yield? Which yield is used for Treasury bill quotes? 10mks
- iii) Suppose you purchase a treasury bill that is 125 days from the maturity for Ksh. 9,765/= with a face value of Ksh 10,000/= Calculate the treasury bill's quoted yield and its bond equivalent yield. 5mks

QUESTION TWO

- i) Explain the determinants of individual interest rates and how they relate to the Fischer effect. 4mks
- ii) What are the fundamental principles behind the loan-able funds theory? Also explain the factors that influence demand and supply of these funds. 4mks

QUESTION THREE

- i) "Bond issues can either sell at a discount or at a par or at a premium" Explain 2mks
- ii) A stock with an expected rate of return of 12% with a constant dividend payment of 20/= each year is to be sold in the market. What would be the price of this stock? 1mk
- iii) XYZ company has issued IPO bonds in the market where it hopes to raise long-term capital financing by issuing 1,000; 10%; 10,000/= bonds on 1/8/2007 yielding 12%. The bonds pay interest semi annually on 30th June and on 31st December every year for the next 5 years from the issue date. The Company's financial year ends on June 30th .
- Required:
- a) What are the total bonds proceeds? 4mks
- b) Calculate the bond discount and premium amount 5mks

QUESTION FOUR

- i) Differentiate between systematic and unsystematic risk. Illustrate this with the help of a diagram 3mks
- ii) Highlight the major factors that determine the price of a call option 2mks
- iii) The following was obtained from a prospective investor who intended to buy a call option:
Current market price is ksh.100/=
Risk-free rate is 10%
Exercise price is 90/=
Time to maturity is 3 months
Standard deviation of the returns is 0.3
Required: Using Black and Scholes option valuation model determine the value of a call option.
 $\{C = S N(d_1) - X e^{-rT} N(d_2)\}$ 10mks

QUESTION FIVE

- i) Respond to the following comments:
- a. There is upside-risk and down-side risk. Standard deviation does not distinguish between them. 1mk
- b. Risk is the probability of loss 1mk
- c. Harry Markowitz was just another non Kenyan 1mk
- d. Required rate of return refers to expected rate of return accruing from an investment 1mk
- e. Beta coefficient is a measure of unique risk 1mk
- ii) Describe the three forms of the Efficient Market Hypothesis (EMH). 3mks
- iii) Discuss two common misstates that can create a bias on the result against the EMH and explain why it would cause a bias. 2mks