JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS ADMINISTRATION WITH IT

3RD YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR

MAIN CAMPUS REGULAR

COURSE CODE: ABA 320

COURSE TITLE: INVESTMENT &PORTFOLIO MANAGEMENT

EXAM VENUE:

DATE: 1/12/20   EXAM SESSION-9-12 NOON

DURATION: 3 HOURS.

INSTRUCTIONS

a) **Answer QUESTION ONE and any other TWO questions**

b) **Show ALL your workings.**

c)   Candidates are advised to write on the text editor provided, or to write on a foolscap, scan and upload alongside the question.

d)   Candidates must ensure that they submit their work by clicking 'FINISH AND SUBMIT ATTEMPT' button at the end.

QUESTION ONE

a) Explain the following terms

i) Systematic Risks   **(2MARKS)**

ii) Mutual fund   **(2MARKS)**

iii) Bottom up investing   **(2MARKS)**

iv) Capital Market theory   **(2MARKS)**

V) Asset backed security   **(2MARKS)**

b) Mr Ibrahim wants to borrow sh.100,000from Mr chike repayable one year later,Mr.Chike wants to oblige with the loan but feels that he should ask for 10% annual interest considering the risk involved in the lending ,such as the possibility of default by the borrower .If Chike now decides to lend the money out at 10% interest ,how much money will Chike advance Ibrahim today, on "I owe you" for sh.100,000 payable after one year **?**   **(5marks)**

c) Sonko Sololo limited consider to invest in security X and Y as shown in the data below

Probability	X%	Y %
0.3	35	28
0.4	30	24
0.3	25	**20**

Required:

i) Compute expected returns if the investor spends 40% in security X and the remainder in security Y

ii) Calculate the covariance of X and Y   (15 marks)

QUESTION TWO

a) Discuss the tenets of Harry Markowitz   **(10 Marks)**

d)Wellspring company issued IPO bonds in the market where he hopes to raise long term capital finance by issuing 1000;10%; 10,000/=bonds, yielding 12%.

Required: What are the bonds   proceeds;

i)If bonds payment is made semi annually

ii) When payments are made quarterly   (**10 MARKS)**

QUESTION   THREE

An investment company is evaluating 5 portfolios with the following features

portfolio	A	B	C	D	E
ERP	14	12	11	15.2	17.8
∂p	6	7.5	5	11.0	13.0

If the rate of return on the market is 10% with standard deviation of 4% and risk free rate is 6%, determine using the capital market line Equation which is efficient, superefficients,or inefficient   **(10 marks)**

b) What is the important of asset backed securities?   **(5marks)**

c) Differentiate capitalization theory from portfolio development strategy   **(5marks)**

QUESTION FOUR

a) What is Security pricing**?**   **(3marks)**

b) A stock with an expected rate of returns of 12% with a constant dividend payment of sh 20/=each year is to be sold in the market .what would be the price of this stock? Calculate the expected return for the stock market series for a stock market estimated to have a dividend of sh.50.00and an ending value of sh.250.If the current value of the stock series is sh.15.00 **(5marks)**

c) The capital Asset Pricing Model (CAPM) specifies the relationship between risk and internal required return on assets when they are held in well diversified portfolios. Discuss the basic assumptions of CAPM   **(12 Marks)**

QUESTION FIVE

a) Discuss the efficient Market Hypothesis   **(10 marks)**

b) The following information is provided by XYZ Company LTD

States nature	probability	Project A CFs(sh)	Project B CFs (sh)
Optimistic predication	0.2	600,000	900,000
Moderate Predication	0.6	600,000	600,000
Pessimistic Predication	0.2	600,000	300,000

Reqiured

    i)   Compute the expected cash flows of projects A and B   **(2.5 marks)**

    ii) Compute the standard deviation of the projects   **(2.5 marks)**

    iii) Identify the project which is riskier based on standard deviation   **(2.5 marks)**

    iv) Which project is riskier based on expected cash flows   **(2.5 marks)**