JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

3RD YEAR 2ND SEMESTER 2024/2025 ACADEMIC YEAR

MAIN CAMPUS

UNIT CODE: BAB 1316

UNIT NAME: INVESTMENT AND PORTFOLIO MANAGEMENT

DATE: 14/04/2025 **EXAM SESSION: 15.00 – 17.00 PM**

DURATION: 2 HOURS

Instructions:

1. **Answer question ONE and any other TWO questions**
2. **Candidates are advised not write on the question paper**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room**

QUESTION ONE (30 Marks-Compulsory)

i) Investment and Portfolio Management is the professional 'Asset Management' of various securities, explain ten classification of market systems for similar securities; (12 marks)

ii) Briefly explain the term liquid market; (3 marks)

iii) Define Efficient Market Hypothesis and describe the types of market efficiency (5 marks)

iv) Using suitable examples discuss the concept Financial Engineering (5 marks)

v) Securitization usually takes place in highly developed Capital Markets. Discuss (5 marks)

QUESTION TWO (20Marks)

i. Portfolio management is the practice of making investment decisions in order to make the largest possible yields. Explain two basic forms of portfolio management (4 marks)

ii. According to the Fema-French Three Factor Model, discuss the systematic considered when making an investment decision (6 marks)

iii. Calculate the expected rate of return for a stock market series estimated to have a dividend of Ksh 50.00 and an ending value of Ksh 250. If the current value of the stock market series is Ksh 150 calculate the expected return for the stock market series. (5 marks)

iv. Identify and briefly discuss three criticisms of beta as used in the capital asset pricing model (5 marks)

QUESTION THREE (20 Marks)

i. Explain in details FOUR theories of Investments (8 marks)

ii. Under Analysis and Valuation on Investments, financial information is sourced from diverse spectrum of books of original entries depending on the mode of operation of the firm under review. List and describe three basic phases of analysis levels; (6 marks)

iii. List and briefly describe the properties of liquidity portfolios (4 marks)

QUESTION FOUR (20 Marks)

i. List and explain five types of interest rate risk on bonds and debt instruments (5 marks)

ii. Discuss briefly the following:

a) Reward -to- Volatility Ratio

b) Risk in the Long run and the lognormal Distribution

c) Value at Risk (VaR)

d) Conditional Tail Expectations (CTE)

e) Lower Partial Standard Deviations (LPSD) (10 marks)

iii) Calculate the EPS of a stock market series; Assuming the following estimates for a stock market series, sales per share = Ksh 1000, OM = 50%, depreciation of 200, interest of 250 and a corporate tax rate of 40%, calculate the forecasted EPS of the stock market series? (5 marks)

QUESTION FIVE (20 Marks)

i. Define the following terms under Common stock analysis and strategy

   a. The Passive Strategy (2 marks)

   b. Buy-and-Hold Strategy (2 marks)

ii. Differentiate between systematic and unsystematic risk. (2 marks)

iii. Explain the factors affecting quality of stocks in the Nairobi Security Exchange Market.(6 marks)

iv. Bond XYZ matures in five years with a coupon rate of 7% and a maturity value of 1,000/=. the bond pays annually at the discount rate of 5%. The cash flow for each of the years is as follows:

Year One = 70/=

Year Two = 70/=

Year Three = 70/=

Year Four = 70/=

Year Five = 1,070/=

You are required calculate the value of the bond and determine how much does the bond value change with change of discount rate to 10% (8 marks)