



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION FOR 2018/2019 ACADEMIC YEAR
BACHELOR OF BUSINESS ADMINISTRATION (BBA) FOR THIRD YEAR FIRST
SEMESTER
KISUMU CAMPUS

COURSE CODE ABA 320

COURSE TITLE: INVESTMENT AND PORTFOLIO MANAGEMENT

DATE: 16/8/2019

EXAM SESSION: 9.00 – 11.00 AM

TIME: 2.00HRS

INSTRUCTIONS:

- (i) Answers question ONE and any other TWO questions.**
- (ii) DO NOT write on the QUESTION PAPER; all writings should be done on the Examination Booklet.**
- (iii) Observe University Examination Rules and Regulations.**

QUESTION ONE

- A) Explain the following terms as used in Investment and portfolio management
- a) Behavioural finance (2.5 Marks)
 - b) Venture funds (2.5 Marks)
 - c) Capital market theory (2.5 Marks)
 - d) Residual Risk (2.5 Marks)
- B) Differentiate Sharpes performance and Treynor performance (5 marks)
- C) Discuss the causes of risks in Portfolio Management (5 marks)
- D) The following information relates to portfolio P and N

	Portfolio P	Portfolio N
Average Return	35%	28 %
Beta	1.25%	1.00
Standard Deviation	42%	30%
Non-Systematic	18%	10%

Assume that the risk-free rate is 6 % and Average market return is 15 %

Required:

- i) Sharpe's performance measure for portfolios P and N (2.5 Marks)
- ii) Treynor's performance measure for portfolio P and N (2.5 Marks)
- iii) Jensen performance measure for portfolio P and N (2.5 Marks)
- iv) The appraisal ratio for portfolio P and N (2.5 Marks)

QUESTION TWO

- a) Mama wote decides to take a loan from Bank of Ksh 15,000,000 at an interest of 10% p,a payable over five years ,the loan is to be paid by equal instalments starting at the first of the year .

Required:

- i) Annual loan repayment amount (4marks)
- ii) Loan amortization schedule (6 marks)

- b) Mr Ibrahim wants to borrow sh.100,000from Mrchike 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

Probabilty	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 **(2.5marks)**
- ii) Calculate the covariance of X and Y **(2.5 marks)**

QUESTION THREE

- a) Differentiate between Capital pricing model and Arbitrage pricing theory **(10 marks)**
- b) Malaika company limited has issued a 10% coupon interest rate ,10-year bond with sh.1000 par value, which pays interest annually. The required rate of return of similar bonds is 10%. What is the value of bond?
 - a) If interest is paid annually **(4marks)**
 - b) If interest is paid semi-annually **(6marks)**

QUESTION FOUR

- a) Discuss the tenets of Harry Markowitz **(10 Marks)**
- b)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
σ_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, superefficient, or inefficient **(10 marks)**

QUESTION FIVE

a) Discuss the efficient Market Hypothesis (10 marks)

b) The following information is provided by Elgon 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

Required

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)

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