



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2018/2019 ACADEMIC YEAR FOURTH YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 414

**COURSE TITLE: INVESTMENT ANALYSIS &
PORTFOLIO MANAGEMENT**

DATE: 26TH APRIL, 2019

TIME: 0830 – 1030 HRS

INSTRUCTIONS TO CANDIDATES

- *Question ONE is compulsory*
- *Answer any other THREE Questions*

This paper consists of 3 printed pages. Please turn over.

QUESTION ONE

a) These two assets belong to SS brothers, for the last one year they experienced the following three states of the economy which impacted on the assets differently

State of the economy	Probability	Stock A rate of return	Stock B rate of return
Recession	0.10	-0.20	0.30
Normal	0.60	0.10	0.20
boom	0.30	0.70	0.50

Compute:

- i) expected returns and
- ii) variance
- iii) standard deviation
- iv) coefficient of variation

(10marks)

b) Comment on the fund diversification strategy and its effectiveness in reducing the portfolio system risk.

(10 marks)

c) Explain the principle upon which diversification is based in a well-functioning economy

(5 marks)

QUESTION TWO

The series of returns of a single investment are presented as follows;

Year	Beginning value	End value
1	100	115.0
2	115.0	138.0
3	138.0	110.4

- i. compute the Arithmetic mean of the investment. **(5marks)**
- ii. calculate the Geometric mean of the investment. **(5 marks)**
- iii. With an appropriate illustration argue which one of the two measures is superior **(5 marks)**

QUESTION THREE

Explain how the following determine the required rate of return of investments;

- i)The time value of money during the period of investment. **(5 marks)**
- ii)The expected rate of inflation during the period. **(5 marks)**
- iii)The risk involved **(5 marks)**

QUESTION FOUR

Discuss Markowitz's portfolio Theory of investment citing the baseline assumptions. **(15 marks)**

QUESTION FIVE

Discuss how age difference and sources of capital may influence the choice of investment opportunities available for investment. **(15 marks)**

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