



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF BUSINESS MANAGEMENT**

COURSE CODE: BBM 414

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

DATE: 18TH APRIL 2018

TIME: 1100 - 1300 HRS

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE

Refer to the following observations for stock A and the market portfolio in the table:

Month	Rate of return	
	Stock A	Market portfolio
1	0,30	0,12
2	0,24	0,08
3	-0,04	-0,10
4	0,10	-0,02
5	0,06	0,08
6	0,10	0,07

a) Calculate the main statistic measures to explain the relationship between stock A and the market portfolio: **(10 marks)**

- i) The sample covariance between rate of return for the stock A and the market
- ii) The sample Beta factor of stock A
- iii) The sample correlation coefficient between the rates of return of the stock A and the market
- iv) The sample coefficient of determination associated with the stock A and the market.

b) Draw in the characteristic line of the stock A and give the interpretation - what does it show for the investor. **(5 marks)**

c) Calculate the sample residual variance associated with stock 's A characteristic line and explain how the investor would interpret the number of this statistic. Do you recommend this stock for the investor with the lower tolerance of risk? **(5 marks)**

d) With the help of a well-drawn diagram distinguish between systematic and unsystematic risk. **(5 marks)**

QUESTION TWO

a) Refer to the following information on joint stock returns for stock 1, 2, and 3 in the table.

Probability	Return for stock		
	Stock 1	Stock 2	Stock 3
0.20	0.20	0.25	0.10
0.30	-0.05	0.10	0.05
0.25	0.10	0.05	0
0.25	0	-0.10	-0.05

If you must choose only two stocks to your investment portfolio, what would be your choice? Present your arguments and calculations, to explain your decision. **(10 marks)**

b) "Young Kenyans should not invest in risky assets such as stock market"
Discuss **(5 marks)**

QUESTION THREE

Distinguish between

- i) Historical returns and expected returns. **(3 marks)**
- ii) Holding period return and holding period yield. **(3 marks)**
- iii) Arithmetic and geometric mean **(3marks)**
- iv) Direct and indirect investment **(3 marks)**
- v) Cash price and market price **(3 marks)**

QUESTION FOUR

- a) Many of underlying assumptions of the CAPM are violated in some degree in "real world". Does that fact invalidate model's calculations? Explain. **(5 marks)**
- b) In terms of the Markowitz portfolio model, explain, how an investor identifies his / her optimal portfolio. What specific information does an investor need to identify optimal portfolio? **(10 marks)**

QUESTION FIVE

- a) Explain why most investors prefer to hold a diversified portfolio of securities as opposed to placing all of their wealth in a single asset. **(5marks)**
- b) Describe the relationship between option prices and their intrinsic value **(5marks)**
- c) Explain the difference between option premium and option price **(5marks)**

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