



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY POSTGRADUATE EXAMINATION

2017/2018 ACADEMIC YEAR

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR MASTER OF
BUSINESS ADMINISTRATION (FINANCE OPTION)**

BCF 629: INVESTMENT ANALYSIS AND PORTFOLIO
MANAGEMENT

DURATION: 3 HOURS

DATE: 22ND AUGUST 2018

TIME: 9.00-12.00AM

Instructions to Candidates:

1. Answer **Any Four** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

QUESTION ONE: (25 Marks)

AB Ltd is pleased to appoint you a lead consultant, your terms of reference include but not limited to the following:

1. Develop a policy on investment for AB Ltd
2. Formulate guidelines for investment decisions
3. Any other issues you consider relevant to investment to AB Ltd.

This appointment has just landed on your desk.

Required:

- a) Discuss the factors you will take into account in going about your work that will ultimately be useful in advising AB Ltd (8 marks)
- b) Explain to AB Ltd what they should consider objectives of investment portfolio management. Why? (7 marks)
- c) Describe the investment management process (10 marks)

QUESTION TWO: (25 Marks)

“An investment firm with 200 Million for investment approaches for advise on matters investment.”

- a) Outline industries expected to grow in Kenya noting the general factors that influence their growth so that the firm can invest accordingly (16 marks)
- b) Explain the specific factors that are responsible for the growth prospects (9 marks)

QUESTION THREE: (25 Marks)

- a) Explain the concept of efficient market hypothesis and capital market efficient propositions (9 marks)
- b) Explain the three forms of efficient market hypotheses and their application (16 marks)

QUESTION FOUR: (25 Marks)

- a) Explain the assumptions underlying Capital Asset Pricing Model(CAPM) (9 marks)
- b) A company invested in stocks with a beta of 1.3. the risk free rate of the investment is 6%. The market return is 10% using a graph project the security market line (7 marks)
- c) Assuming that inflation occurs and consequently pushes all rates upwards by 3%. Project the information on a graph (9 marks)

QUESTION FIVE: (25 Marks)

An investor owns a portfolio of four securities. The characteristics of the securities and their proportions in the portfolio are presented below

Security	Coefficient Beta	Proportion %	Expected return
A	1.40	30%	13
B	0.90	30%	18
C	1.00	20%	10
D	1.30	20%	12

Required:

- a) Expected return (3 marks)
- b) Risk of the portfolio (4 marks)
- c) If the investor wants to reduce risk in his portfolio, how should he restructure the portfolio? (3 marks)
- d) The following information is given to you relating to two projects A & B
 - A's expected return = 18%
 - B's standard deviation = 20%
 - A's Standard deviation = 12%
 - B's expected return = 25%
 - Correlation coefficient = 1.0

Suppose the investment is made as follows:

- i. 100% in stock A
- ii. 100% in stock B
- iii. 50:50 in both A&B
- iv. 20:80 in A & B respectively
- v. 60:40 in A&B respectively (5 marks each)

Note any three shall be considered.