(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMS

FOR THE DEGREEOF MASTER OF BUSINESS MANAGEMENT

COURSE CODE: **MBA836E**

COURSE TITLE: INVESTMENT AND PORTFOLIO MANGEMENT

DATE: 24TH SEPTEMBER, 2021   **TIME: 8.00AM-11.00AM**

INSTRUCTIONS TO CANDIDATES
Answer Question One and any other TTHEE (3) Questions

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE (40 mrks Compulsory)

a) Harry Markowitz theory arrived at achieving optimal portfolio selection. How was this achieved. (6mks)

b) An investor needs to evaluate portfolio on return and risks basis. using the efficient set theorem an investor will choose his optimal portfolio from the set that achieves to important aspects. Highlight this aspect (6mks)

c) Using a schematic diagram of feasible set show how the market portfolio is achieved. (9mks)

d) How does the capital market line assist in valuation of securities? (6mks).

e) The beta factor for securities is given as 1.35 interpret this value.(4mks)

f) Highlight the three levels of Efficient Market Hypothesis(9mrks)

QUESTION TWO

(10mks)

a) Give any five weaknesses of portfolio theory.

b) A company expects a return of 19%. If the risk-free rate is 5% portfolio risk of 12% market risk of 4% with market return of 12% calculate the portfolio return and indicate whether it's overvalued or undervalued and how can you advise the company. (5mks)

c) Using a schematic diagram distinguish between systematic risk and unsystematic risk. (5mks).

(Total 20mks)

QUESTION THREE

a) The possible return of security I and market returns under three possible states of nature are as follows

Probability	%Market return	%Security return
0.2	30	20
0.5	26	32
0.3	50	60

The risk-free rate is 18%. Determine required return of security I using CAPM equation and state whether it is over/under valued. (10mrks)

b) In what ways is the security market price different from capital market price. (5mks)

c) What are the uses of capital assets pricing model CAPM. (5mks)

(Total 20mks)

QUESTION FOUR
a) Discuss Interest rate theories. (10mks)
b) Bring out the difference between CAPM and APT. (10mks)

(Total 20mks)

QUESTION FIVE
a) Discuss the Efficient Market Hypothesis (20mrks)

(Total 20mks)