



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021 /2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMS

**FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

COURSE CODE: MBA 836

COURSE TITLE: INVESTMENT & PORTFOLIO MANAGEMENT

DATE: 10TH JUNE, 2022

TIME: 2.00PM - 5.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B
2. Question one carries 40 marks and each of the other THREE questions carry 20 marks each.

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of Printed 5 Pages. Please Turn Over.

QUESTION ONE

a) Distinguish the following terms in portfolio risk management strategies:

- i) Risk Avoidance vs Risk Reduction.....(4 marks)
- ii) Risk RetentionvsRisk Transfer.....(4 marks)

b). Identify and explain five methods that can be used in measuring risk in investment analysis. (5 marks)

c). Mr.Justine is considering allocating his portfolio funds to the following securities

Security	Weight	Beta
A	15%	0.85
B	10%	1.30
C	20%	1.181
D	25%	1.25
E	30%	0.70

If the risk free rate is 12% and the return on the market portfolio is 18%, calculate:

- i). Portfolio Beta.....(5 marks)
- ii).Expected Return on Jude's portfolio.....(5 marks)

d).Discuss the limitations of CAPM(capital asset pricing model) and How has APT(Arbitrage pricing theory) modelproffered solutions to some of these problems?(10 marks)

e). Anulika KE. Ltd. is considering investing in a project which cash flows were as follows:

Year 0 Ksh.'000	Year 1 Ksh'000	Year 2 Ksh'000	Year 3 Ksh'000	Year 4 Ksh'000	Year 5 Ksh'000
-144	+15	+25	+35	+45	+ 60

Given that the cost of capital is at 10% per annum, should Anulika KE. Ltd. invest in it or not – using the IRR approach? (11 marks)

QUESTION TWO

Comprehensively discuss the origin, functions development and the contribution of the Central bank of Kenya to economic and financial development in Kenya. (20 Marks)

QUESTION THREE

- a. Discuss the meaning of the e word 'Capital Market', explaining who are the operators and in the Kenya CapitalMarket? Who are the regulators in the Kenyan Capital Market? (10 marks)
- b. Consider a portfolio composed of five securities. All the securities have a beta of 1.0 and unique or specific risk (standard deviation) of 25 per cent. The portfolio distributes weight equally among its component securities. If the standard deviation of the market index is 18 per cent, calculate the total risk of the portfolio. (10 Marks)

QUESTION FOUR

- a) For linear SDF specifications, the uncertainty surrounding the misspecification model can be decomposed into three components. Discuss.(10 Marks)
- b) Two main econometric methodologies have emerged to estimate and test asset pricing models. Discuss succinctly.(7 Marks)
- c) Distinguish between Unit Mutal trust and the Money market in Kenya(3 Marks)

QUESTION FIVE

- a) The establishment of Kenyan Money market has been argued not to be necessary. Do you agree with this statement? Justify (8 Marks)
- b) Are traditional financial institutions beneficial in Kenya? Discuss (7 Marks)
- c) All investors have common objectives with regards to investment decisions of their capital. Discuss (5 Marks)

QUESTION SIX

- a) A speculator and an Investor are sometimes assumed to be one and the something. Do you agree with this statement? Justify your answer (9 Marks)

b) **Nwagod Company Ltd** is considering five different investment opportunities. The company's cost of capital is 12 percent. Data on these opportunities under consideration are given below.

Project	Investment		PV at		NPV		IRR		Profitability	
	Ksh	'000	12%		Ksh	'000	Ksh	'000	Index	
			Ksh	'000					Ksh	'000
										1.12
a.	35,000		39,325		4,325		16			
b.	20,000		22,930		2,930		15			1.15
c.	25,000		27,453		2,453		14			1.10
d.	10,000		10,854		854		18			1.09
e.	9,000		8,749		(251)		11			0.97

- a) Rank the five projects in descending order of preference, according to: NPV (Net Present Value), IRR (Internal Rate of Return), Profitability Index. (5 Marks)
- b) Which ranking would you prefer? (2 Marks)
- c) Based on your answer in part 2, which projects would you select if Ksh55,000,000 is the limit to be spent? (4 Marks)