



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER
MAIN EXAMINATION- DAY

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 411

COURSE TITLE: SECURITY ANALYSIS AND SECURITIZATION

DATE: 16TH MAY, 2022

TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE (30MKS)

- a) Briefly describe three types of brokerage firms (6mks)
- b) Explain the term efficient portfolios (4mks)
- c) In the context of technical analysis, distinguish between the following pairs of concepts(illustrate using diagrams)
 - i) Line charts vs. bar charts (4mks)
 - ii) Upward vs. downward trend lines (4mks)
- d) The initial margin rate is 50% and the maintenance margin rate is 30%. Hilda uses the full amount of the margin and sells short 7500 shares of IAPM stock currently trading at shs.100 per share.
 - i) What is Hilda's return if the stock price drops to shs. 90 per share? (4mks)
 - ii) At what price would Hilda get a margin call from her broker? (6mks)
- e) Explain the difference between a forward and futures contract (2mks)

SECTION B

QUESTION TWO (20MKS)

Write short notes on the following

- i) Money market instruments (5mks)
- ii) Features of investment (5mks)
- iii) Factors that influence the value of a call option (5mks)
- iv) Role of stock brokers in securities trading (5mks)

QUESTION THREE (20MKS)

- a) Describe the procedure for selling shares in a securities market. (10mks)
- b) Briefly describe factors that affect the level of investment in the economy.(10mks)

QUESTION FOUR (20MKS)

- a) Security analysis has one key objective to appraise the intrinsic value of securities. Discuss how each of the following three main approaches appraises the value;

- i) Fundamental analysis (5mks)
- ii) Efficient market theory (5mks)
- b) Yusuf buys 10,000 shares of TQM on margin using an initial margin of 60% at the current market price of shs.175 per share. Assume a call money rate of 10% and service charge of 1%.

Required:

- i) What will be the return on Yusuf's investment if the stock price increases to shs. 180 per share? (Assume he holds them for a year) (4mks)
- ii) Suppose the maintenance margin is 40%, at what price will Yusuf's broker issue a margin call? (4mks)
- c) Contrast between portfolio theory and capital asset pricing model (2mks)

QUESTION FIVE (20MKS)

- a) The success of the NSE-20 share index depends on its ability to successfully act as a barometer of the Nairobi Securities Exchange. Discuss (10mks)
- b) The Arbitrage Pricing Theory (APT) and the Capital Asset Pricing Model (CAPM) have received much attention from practitioners and academicians for use in asset pricing and valuation. Explain the conceptual differences between APT and CAPM (10mks)