



# MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 408: APPLIED INVESTMENT

DATE: 9/12/2021

TIME: 2.00-4.00 PM

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## INSTRUCTIONS:

ANSWER QUESTION ONE IN SECTION A AND ANY OTHER TWO QUESTIONS IN SECTION B.

### SECTION A (COMPULSORY)

#### QUESTION ONE (30 MARKS)

- Give an example of liquid and illiquid investments and explain why you consider each to be liquid and illiquid. (6 marks)
- All investments are characterized by certain common features. Discuss any three of these features. (6 marks)
- To rank the portfolios according to their performance, finance analysts rely on different ratios. Discuss three of these ratios. (6 marks)
- As a finance analyst, state and explain one method you would use to measure returns of an investment. (6 marks)
- Discuss three avenues of alternative investments available to Kenyan retail investors. (6 marks)

### SECTION B: ANSWER ANY OTHER TWO QUESTIONS

#### QUESTION TWO:

- Following are the price and other details of three stocks for the year 2019:

Stock	Beginning price Ksh.	Dividend paid Ksh.	Ending price Ksh.
A	30	3.40	34
B	72	4.70	69
C	140	4.80	146

- You are required to calculate the total return for each of the three stocks (12 marks)
- b) What fundamental geopolitical changes that have taken place in the recent years that have made global investment possible (8 marks)

**QUESTION THREE (20 MARKS)**

Consider the following information of three mutual funds A, B and C in the market:

	Mean return	Standard deviation	Beta
	%	%	
A	12	18	1.1
B	10	15	0.9
C	13	20	1.2
Market index	11	17	1.00

The mean risk rate was 6%. You are required to calculate the Treynor, Sharpe and Jensen measures for each of the three mutual funds given above.

**QUESTION FOUR (20 MARKS)**

- a) Spell out the key features of money market in Kenya. (5 marks)
- b) Discuss the major dimensions of investment policy for an investor who may seek your advice (15 marks)

**QUESTION FIVE (20 MARKS)**

- a) Describe the key steps involved in portfolio management (10 marks)
- b) How to the following investments compare in terms of return, risk, marketability, tax shelter and convenience: equity shares, bank deposits, public provident fund and residential house (15 marks)