



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC408 APPLIED INVESTMENT

DATE:

TIME:

INSTRUCTIONS

Answer Question One and Any Other Two Questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) “Investment is a commitment of funds made in the expectation of some positive return” Based on this statement, highlight the main features that characterise all types of investments. (8 marks)
- b) To rank the portfolios according to their performance, finance analysts rely on different ratios. Discuss three of these ratios (6 marks)
- c) As a finance analyst, discuss one method you would use to measure returns of an investment. (6 marks)
- d) Consider the following for a certain investment:
Price at the beginning of the year Ksh.60.00
Dividend paid during the year Ksh.2.40
Price at the end of the year Ksh. 66.00
You are required to calculate the rate of return for this investment (10 marks)

QUESTION TWO (20 MARKS)

- a) Describe the key steps involved in portfolio management process (8 marks)
- b) How do the following investments compare in terms of return, risk, marketability, tax shelter and convenience:
 - Equity shares
 - Bank deposits
 - Public provident fund
 - Residential house(12 marks)

QUESTION THREE (20 MARKS)

Consider the following information of three mutual funds A, B and C 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.

QUESTION FOUR (20 MARKS)

- Spell out clearly the key features of money market in Kenya. (12 marks)
- The equity stock of Racks Limited is selling currently for Ksh.30 per share. The dividend expected next year is Ksh.2 per share. The investors' required rate of return on this stock is 15%. If the constant growth model applies to Racks Limited, what is the expected growth rate? (8 marks)

QUESTION FIVE (20 MARKS)

"The world is being swept by a second wave of globalization in the 21st Century. Within limits Kenyan citizens can invest in various assets abroad". What are the several risks that a Kenyan investor is likely to face on global investment.