MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC 408: APPLIED INVESTMENTS

DATE: 30/5/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

(a) Give an example of liquid and illiquid investments and explain why you consider each of them to be liquid and illiquid. (6 marks)

(b) "All investments are characterised by certain common features" Discuss two of these features. (6 marks)

(c) To rank the portfolios according to their performance, finance analysts rely on different ratios. Discuss three of these ratios. (6 marks)

(d) Discuss three reasons for Global Investments (6 marks)

(e) Explain two avenues of alternative investments available to Kenyan retail investors (6 marks)

QUESTION TWO (20 MARKS)

"The theory of portfolio allocation seeks to answer questions about portfolio choice and predicts how a saver distributes his savings across alternative investments. According to this theory, savers evaluate five determinants when deciding what investments to make and how much to invest in each alternative" Discuss these determinants of portfolio allocation. (20 marks)

QUESTION THREE (20 MARKS)

(a) Company X has a beta of 1.45. The expected risk-free rate is 2.5% and the expected market return on the market as a whole is 10%. Using CAPM, Calculate X's expected rate of return. (4 marks)

(b) Discuss the limitations of the Capital Asset Pricing Model. (16 marks)

QUESTION FOUR (20 MARKS)

(a) Discuss the difference between "Commingled Fund" and "Mutual Fund" (4 marks)

(b) In 1868, Robert Fleming set up the first Investment Trust in Scotland that resembled today's Closed-End Mutual Funds. Since then Mutual Funds have become so popular all over the world. What are the reasons for Mutual Funds popularity? (16 marks)

QUESTION FIVE (20 MARKS)

(a) Discuss the four different kinds of Global Investments. (12 marks)

(b) Draw a properly labelled diagram of the investment process strategy. (8 marks)