MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 408 APPLIED INVESTMENT

DATE: 8/5/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) One assumption of capital the asset pricing model (CAPM) is that investors exhibit myopic behaviour. What does this mean? (6 marks)

b) With examples, explain clearly the terms liquid and illiquid as used by investors (6 marks)

c) Company x has a beta of 1.45. The expected risk-free rate is 2.5 % and the expected market return on the whole market is 10%. Appling the CAPM, determine x's expected rate of return (6 marks)

d) Discuss the three ratios commonly used by Financial Analysts to rank the performance of portfolios. (6 marks)

e) Discuss any three types of mutual funds you are likely to invest in Kenya (6 marks)

QUESTION TWO (20 MARKS)

a) A portfolio has a total return of 10% and risk-free rate is 6%, and the portfolio's beta is 0.9. You are required to calculate the Treynor Ratio and comment on your results. (8 marks)

b) Discuss four major players in a mutual fund (12 marks)

QUESTION THREE (20 MARKS)

"Certain policy decisions of potential target countries of interest receive close scrutiny from investors. Consequently, a number of International Agreements have been written to specifically address those concerns "State and explain in detail some of these concerns.

QUESTION FOUR (20 MARKS)

"Portfolio investment process is the first step in the portfolio management process. It is an integrated set of steps formulated and undertaken in a consistent manner to create and maintain an appropriate portfolio to meet investor's stated goals" On the basis of this statement discuss the four steps followed by investors in in portfolio investment planning.

QUESTION FIVE (20 MARKS)

a) Discuss the assumptions of the Capital Asset Pricing Model (CAPM) and show how these assumptions relate to the real world of investment decision process. (12 marks)

b) A portfolio has a return of 10%, the Risk-Free Rate is 6% and the portfolio standard deviation is 18%. You are required to calculate and comment on your results on the performance of the portfolio according to Sharpe Ratio (8 marks)