TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BCOM

BFI 4402: PORTFOLIO AND INVESTMENT ANALYSIS

END OF SEMESTER EXAMINATION
SERIES: AUGUST 2019
TIME: 2HOURS
DATE: 16Aug2019

Instructions to Candidates
You should have the following for this examination
-*Answer Booklet, examination pass and student ID*
This paper consists of **FIVE** questions. Attemptquestion ONE (Compulsory) and any other TWO questions.
Do not write on the question paper.

QUESTION One

a) Explain three practical uses of the Capital asset pricing model. **(6Marks)**

b) Write brief notes on the following common derivative contract types**:**
- **i)** Forwards contract **(4 Marks)**
- **ii)** Futures contrac**t** **(4Marks)**

c) A local bank is offering 9% interest, compounded monthly, on savings accounts. If you deposit $700 today how much will have in two years **(6Marks)**

d) Given the following information on WAK Corporation and ALH Corporation, calculate the expected returns

for WAR and AHL and establish the variance and standard deviation for WAK. And ALH **(10Mark)**

State of economy	Probability of state of economy	Rate of return if state occurs	
		WAK	ALH
1	.20	.25	.18
2	.10	.10	.20
3	.50	.15	.04
4	.30	-.12	.00

QUESTION Two

a) An individual plans to invest in stock A and Stock B. The expected returns are 9% and 10% for stock A and B respectively. The beta values are 0.95 and 1.25 for stock s A and B, respectively. Find the expected return and beta for the portfolio if she invests 75% of her funds in Stock A**.** **(10Marks)**

b) Discuss the differences between CAPM and APT **(10Marks)**

QUESTION Three

a) Discuss the assumptions of Harry Markowitz Model. **(10Marks)**

b) Explain with the help of graphs the effect of risk free lending on the efficient set **(10Marks)**

QUESTION Four

Write brief notes on the following terms as used in investment:-

i) Credit enhancement **(5 Marks)**

ii) Securitization **(5Marks)**

iii) Bundling and Unbundling **(5Marks)**

iv) Globalization **(5Marks)**

QUESTION Five

a) A farmer in Uganda is considering investing in ZPLC. The correlation coefficient between the company's returns and the return on the market is 0.7. The standared deviation of the returns for the Company and the market are 8% and 5% respectively. Calculate the beta value. **(10Marks)**

b) Your Aunt Nell has promised you a two week trip to Europe when you graduate from University in two years, providing your grades are good. She estimates that the trip will cost $5,000. How much money should Aunt Nell put aside today to pay for your trip? She earns 8% on her money. **(10Marks)**

