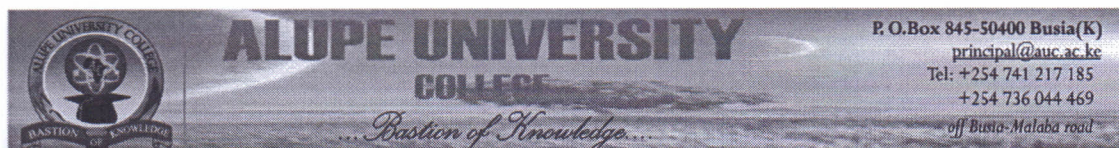


BBM 413



OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT**

COURSE CODE: BBM 413
**COURSE TITLE: INVESTMENT AND PORTFOLIO
 MANAGEMENT**

DATE: 19th July 2021

TIME: 8.00AM-11.00

INSTRUCTION TO CANDIDATES

- SEE INSIDE
- PLEASE TURN OVER

REGULAR – MAIN EXAM

BBM 413: INVESTMENT AND PORTFOLIO MANAGEMENT

STREAM: BBM (Finance)

DURATION: 3

Hours

INSTRUCTION TO CANDIDATES

- i. Answer question ONE and any other TWO questions
- ii. Do not write on the question paper.

QUESTION ONE

- a) Explain the significance of the assumption, at the heart of financial theory, that investors are ‘risk averse’. (10 Marks)
- b) The dividend valuation model (‘DVM’) suggests that share valuation is a function of expected future dividend payments. Explain why DVM is still useful for valuing the equity of non-dividend paying companies. (10 marks)
- c) Using the following data on portfolio weights of two assets A & B, explain and illustrate Harry Markowitz Portfolio Theory ;

Time(T)	Weight (Asset A)	Weight (Asset B)	E[R]	VARIANCE (σ^2)
1	1	0.00	0.1	0.00680
2	0.8	0.20	0.12	0.00272
3	0.6	0.40	0.14	0.003232
4	0.5	0.50	0.15	0.00392
5	0.3	0.70	0.17	0.006253
6	0.2	0.80	0.18	0.00752
7	0.00	1.00	0.20	0.0121

[10 marks]

QUESTION TWO

- a) The following illustrates the market returns (M) and the returns from security (j)

Time(T)	Returns Stock (j) %	Market returns (M) %
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1	10	12
2	15	14
3	18	10
4	14	9
5	10	13

Required;

Calculate Beta and explain its importance in portfolio analysis [10 marks]

b)

Mutual Fund	Return (%)	SD (σ^2) (%)	Beta
A	14	11	0.90
B	17	20	1.03
C	19	27	1.20

Suppose that the 10-year annual return for the NSE 25 (market portfolio) is 10% while the average annual return on Treasury bills (a good proxy for the risk-free rate) is 5%.

Required;

Evaluate the performance of the mutual funds using Sharpe and Treynor measures. (10 Marks)

QUESTION THREE

a) Discuss the role of Covariance and Correlation in Portfolio construction [10 marks]

b) Explain the following;

i. Fundamental Analysis [5 marks]

ii. Industry Analysis [5 marks]

QUESTION FOUR

a) Discuss three forms of Market efficiency [12 marks]

b) Explain the role of Derivatives in Portfolio Construction. [8 marks]

QUESTION FIVE

- a) Find the portfolio return and risk

STOCK	E[R]	WEIGHT	VARIANCE	SD
A	0.12	0.40	0.0064	0.08
B	0.18	0.60	0.60	0.01

Correlation (A, B) = 0.8

(10 Marks)

- b) Explain four differences between 'private placings' and 'rights issues'.
Marks)

(10