



KIBABII UNIVERSITY COLLEGE

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DEPARTMENT OF BUSINESS MANAGEMENT & ECONONICS

MAIN EXAMINATION

2013 /2014 ACADEMIC YEAR

1ST YEAR 2ND SEMESTER EXAMINATION

DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBA 103

COURSE TITLE: INVESTMENT MANAGEMENT

DATE: 14TH APRIL 2014

TIME: 2.00P.M – 4.00P.M

INSTRUCTIONS

- Answer question in section A (Compulsory) and any THREE in Section B

SECTION A

QUESTION ONE

Explain what is meant by risk premium and briefly explain any FOUR sources of risk (10mks)

QUESTION TWO

The table below provides a probability distribution for the returns on stocks X and Y

State	Probability	Return on Stock X	Return on Stock Y
Depression	10%	5%	50%
Recovery	40%	10%	30%
Boom	30%	15%	20%
Recession	20%	20%	-10%

REQUIRED

- Compute the expected return on each of the stocks and interpret your answer (4mks)
- Calculate the standard deviation of each stock and interpret your answer (6mks)
- Calculate the expected return on a portfolio comprised of 60% of stock X and 40% stock Y. (5mks)

SECTION B

QUESTION THREE

- Explain any two types of financial statements that are maintained by an organization clearly highlighting its role (6mks)
- The top part of Dandora limited's 2012 and 2013 balance sheets are listed below (in million of shillings)

Current assets	2008	2009	Current liabilities	2008	2009
Cash and marketable securities	25	30	Accrued wages and taxes	28	29
Accounts receivable	85	94	Accounts payable	55	61
Inventory	120	131	Notes payable	50	55
Total	230	255	Total	133	145

Calculate the Current ratio and Quick ratio for 2012 and 2013 and give a brief description about the organization's liquidity position. (9mks)

QUESTION FOUR

- (a) Explain the following terminologies (6mks)
- (i) Systematic Risk
 - (ii) Risk Free Rate
 - (iii) Market Portfolio
- (b) List and explain the **THREE** forms of efficient Market Hypothesis. (9mks)

QUESTION FIVE

Calculate the required return on the following stocks given that the risk-free rate 9% and explain whether a rational investor would invest in the particular stock.

Stock	Beta	Expected return on market portfolio	Current rate of return
A	2	12%	14%
B	1.5	11%	13%
C	1	15%	16%
D	1.2	14%	15%
E	0.5	13%	10%

(15mks)

QUESTION SIX

- (a) Wafula intends to invest in 8% stock whose par value is Kshs.1,000 each. The stock is redeemable after 5 years. The cost of capital is 10% p.a. Advice Wafula on whether to buy the stock if it is currently selling at Kshs.880. (5mks)
- (b) Would you advise to Wafula in (a) above be different if the 8% stock was to be held in perpetuity? (5mks)
- (c) Determine the value of an ordinary share whose current dividend is Kshs.20 per share. The par value of the share is Kshs.250. The share is expected to have a growth rate of 5% for the first 3 years, 4% in the following 2 years and 6% thereafter. The cost of capital is estimated to be 12% p.a. (5mks)

QUESTION SEVEN

Explain any **THREE** types of derivatives. (15mks)