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MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 313**

**COURSE TITLE: ASSET VALUATION AND**

**MANAGEMENT**

**DATE: 24TH APRIL 2017 TIME: 2.00PM-4.00PM**

**INSTRUCTIONS TO CANDIDATES**

* ***Answer question ONE (compulsory) and any other THREE***
* ***Question one carries 25 marks***
* ***All other questions carry 15 marks***

*This paper consists of 2 printed pages. Please turn over*

**QUESTION ONE**

a) An investor buys some stock in XYZ for Ksh 35 per share. After one year, the price was Ksh 49 per share. During that year, the investor received Kshs 1.40 dividend per share.

**Required**:

i) Calculate dividend yields

ii) The capital gain

iii) The percentage return **(9 marks)**

b) Explain the relationship between risk and return **(4 marks)**

c) Secondary market stock trade among investors is directed through three channels. Explain these channels **(6 marks)**

d) Describe the basic dividend discount model **(6 marks)**

**QUESTION TWO**

a) How does new information get into stock price **(5 marks)**

b) What are the advantages and draw backs of mutual funds investing

**(10marks)**

**QUESTION THREE**

a) Explain why market efficiency is difficult to test **(8 marks)**

b) Differentiate between forward contract and future contract **(3 marks)**

c) Explain how future contracts can be used to transfer price risks **(4 marks)**

**QUESTION FOUR**

a) Explain the risks involved in future market speculations **(3 marks)**

b) State how government borrows money from the market  **(2 marks)**

c) Explain how an investor can price options using the black schools model

**(10 marks)**

**QUESTION FIVE**

a) Explain what stock market anomalies, bubbles, and crashes mean for market **(7marks)**

b) Explain how an investor can measure the impact of interest rate changes on bond prices **(8 marks)**