

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATION**

**2016/2017 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESSAND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 414**

**COURSE TITLE: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**

**DATE: 12TH MAY 2017            TIME: 11.00AM- 1.00PM**

**INSTRUCTION TO CANDIDATES**

Answer question one and any other three questions

***This paper consists of 3 printed pages. Please turn over.*QUESTION ONE**

1. Your health 63-year-old neighbor is about to retire and comes to you for advice. From talking with her, you find she was planning on taking all the money out of her company’s retirement plan and invest in bonds and money market. What advice should you give her ?**(10 marks)**
2. You are considering acquiring shares of common stock in Madison corporation. Your rate of return expectation are as follows

Possible rate of return probability

0.10 0.30

0.00 0.10

0.10 0.30

0.25 0.30

Compute the expected rate of return[E(Ri )] on your investment in Madison corporation. **(5marks)**

1. Explain how a given investor choose an optimal portfolio. Will this choice always be diversified portfolio or could it be a single asset. Explain

**(10 marks)**

**QUESTION TWO**

1. Comment on the fund diversification strategy and its effectiveness in reducing the portfolio system risk. **(10 marks)**

1. Your 45-year-old uncle is 20 years away from retirement, your 35 years old sister is 30 years away from retirement. How might their investment policy differ **(5 marks)**

**QUESTION THREE**

During the past five years, you owned two stocks that had the following annual rate of return:

|  |  |  |
| --- | --- | --- |
| Year | stock I | Stock II |
| 1 | 0.19 | 0.08 |
| 2 | 0.08 | 0.03 |
| 3 | -0.12 | 0.09 |
| 4 | -0.03 | 0.02 |
| 5 | 0.15 | 0.04 |

1. Compute arithmetic mean annual rate of return for each stock. Which stock is most desirable? **(3marks)**
2. Compute the standard deviation of the annual rate of return for each stock **(3marks)**
3. Compute the coefficient of variation for each stock and comment on which stock is preferable. **(3 marks)**
4. Compute the geometric mean rate of return for each stock. Discuss the difference between the arithmetic mean and the geometric mean for each stock. **(6 marks)**

**QUESTION FOUR**

1. Describe capital market theory and explain its assumptions. (**10 marks)**
2. “Young people with little wealth should not invest in risky assets such as stock market, because they can’t afford to lose what little money they have” Do you agree with the statement? Explain. **( 5marks)**

**QUESTION FIVE**

1. With the help of a well-drawn diagram distinguish between systematic and unsystematic risks. **( 5 marks)**
2. Explain any five different types of risk apart from the ones in (a) **(10 marks)**

**//END**

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATION**

**2016/2017 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESSAND ECONOMICS**

**MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 81101**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: TH MAY 2017                        TIME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**INSTRUCTION TO CANDIDATES**

Answer question one and any other three questions

**QUESTION ONE**

1. There are two projects A and B. Each involves shs. 50,000. The expected cash inflow and uncertainty coefificient are as under.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | A | | B | |
| Year | Cash flow | Certainty | Cash flow | certainty |
| 1 | 35,000 | 0.8 | 25,000 | 0.9 |
| 2 | 30,000 | 0.7 | 35,000 | 0.8 |
| 3 | 20,000 | 0.9 | 20,000 | 0.7 |

The risk free cut off rate is 10%. Suggest which of the two projects should be preferred. ( 8 marks)

1. Calculate the payback period for the three projects which require shs. 20,000 each. Suggest the most profitable project ( 7 marks)

|  |  |  |  |
| --- | --- | --- | --- |
| Year | I | II | III |
| 1 | 50,000 | 60,000 | 35,000 |
| 2 | 50,000 | 70,000 | 45,000 |
| 3 | 50,000 | 75,000 | 85,000 |
| 4 | 50,000 | 45,000 | 50,000 |
| 5 | 50,000 | - | 35,000 |

1. Evaluate the advantages and disadvantages of retained earning

**( 10 marks)**

**QUESTION TWO**

1. critically explain the factors affecting the requirement of working capital  **( 5 marks)**
2. Discuss the objectives of financial management and explain the role of a financial manager to each of them. **( 10 marks)**

**QUESTION THREE**

1. There are two firms A and B exactly identical except that A does not use any debt in financing, while b has shs. 250,000, 6% debentures in its financing. Both of the firms have earnings before interest and tax of shs .75,ooo and the equity capitalization rate is 10%. Assuming the corporation tax is 505. Calculate the value of the firm. **( 5marks)**
2. Differentiate capital structure from financial structure **(5marks)**
3. A company issues 10,000 equity shares of shares of shs. 100 each at a premium of 10%. The company has been paying 25% dividend to equity shareholders for the past five and expects to maintain the same in future also. Compute the cost of equity capital. Will it make any difference if the market of equity share is shs .175. **(5 marks)**

**QUESTION FOUR**

1. Discuss the concept of financial leverage **(5 marks)**
2. Critically discuss the factors that influence formulation of dividend policy

**QUESTION FIVE**

A company is considering two mutually exclusive projects requiring an initial cash outlay of shs. 10,000 each and with a useful life of 5 years. The company required rate of return is 105 and the appropriate corporate tax is 50%. The project will be depreciated on the straight-line basis. The before tax cash flows expected to be generated by projects are as follows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Project A | 4000 | 4000 | 4000 | 4000 | 4000 |
| Project B | 6000 | 3000 | 2000 | 5000 | 5000 |

Required:

Calculate for each project

1. The payback period (3 marks)
2. The average rate of return (3 marks)
3. The net present value (3 marks)
4. Profitability index (3 marks)
5. The internal rate of return (3 marks)

Which project should be accepted and why?