



Scott Christian UNIVERSITY

SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

UNIT CODE/NAME: BAF 400: PORTFOLIO AND INVESTMENT MANAGEMENT

September- December 2019/2020 End Semester Exam - Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

QUESTION ONE

- a) Explain the major players in investment markets (10 Marks)
- b) You know that an investment with a beta of 1 generates an expected return of 9%, you also know that another investment, which has a beta of 0, generates a return of 2%. What return can you expect on an investment with a beta of 0.75? (5 Marks)
- c) You own the following portfolio of stocks. What is the portfolio weight of each stock? What is the expected return of the portfolio? (10 marks)

Stock	Number of Shares	Price	Expected Return
W	700	\$45	12%
X	600	\$22	16%
Y	350	\$58	14%
Z	575	\$43	15%

- d) Identify and explain the five assumptions of CAPM (5 Marks)

QUESTION TWO

- a) Explain the economic function of financial markets (3 Marks)
- b) Describe four classification of financial markets (4 Marks)
- c) You own a portfolio that has shs 2,100 invested in Stock A and shs.3,200 invested in Stock B. Assume the expected returns on these stocks are 11 percent and 17 percent, respectively. What is the expected return of the portfolio? (8 Marks)

QUESTION THREE

- a) Using the CAPM (capital asset pricing model) and SML (security market line), what is the expected rate of return for an investment with a Beta of 1.8, a risk free rate of return of 4%, and a market rate of return of 10%.

Required;

Calculate expected rate of return

(5 Marks)

- b) Explain the bond and equity portfolio management strategies available to investment managers **(10 Marks)**

QUESTION FOUR

- a) Identify the assets classes available in Kenya today

(4 Marks)

- b) Consider the following information about two stocks where the probability of an economic boom is 40%. **(11 Marks)**

Economic State	Return A (R_A)	Return B (R_B)
Boom	38%	6%
Recession	-4%	12%

- Calculate the expected return for stock A and stock B.
- Calculate the standard deviation of stock A and stock B.
- Calculate the correlation between stock A and stock B.
- Calculate the total risk (standard deviation) of a portfolio, where $1/8$ of your money is invested in stock A, and $7/8$ of your money is invested in stock B. (use both the method with the formula for the risk of a portfolio (i.e., using the covariance) and the method of calculating the variance (and standard deviation) from the portfolio returns.
- Calculate the expected return on a portfolio with equal proportions in the risky assets, and 30% in a risk-free asset. (Use your answer in d to find out what the rate of return is on a risk-free asset).

QUESTION FIVE

- What are some of the recent trends in investment and portfolio management **(8 Marks)**
- A stock has an expected return of 14.2 percent, the risk-free rate is 5.5 percent, and the market risk premium is 6.9 percent. What must the beta of this stock be? **(7 Marks)**