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ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE	:	**CAC406**
COURSE TITLE	:	**INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**
SPECIAL REQUIREMENTS	:	
DURATION	:	**3 Hours**
LEVEL	:	**4.1**
DATE	:	26 OCT 2021

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in Both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]
6. Show all workings, where applicable.
7. Formulae sheet to be provided.

SECTION A

Answer all questions in this Section. Each question carries 2marks

Select the most appropriate answer.

1.Horse racing, game of cards, lottery are the typical examples of ______________

A) Investment B) Speculation C) Gambling D) Arbitrage

2.____________ risk is associated with the security market, as well as the economic, sociological, political and legal consideration of the prices of all securities in the economy.

A) Unsystematic risk B) Systematic risk C) Normal risk D)Abnormal risk

3. Variance calculation and measuring the Standard deviation is one way of measuring the ______

A) Risk B) Return C) Speculation D) Gambling

4. Markowitz model presumed generally investors are

A) Risk averse B) Risk natural C) Risk seekers D) Risk moderate

5. Investing in different asset and securities of many companies in an attempt to reduce the overall investment risk is known as__________

A) Portfolio selection B) Portfolio Revision C) Portfolio diversification D) None of these

6. Asset allocation is procedure of scattering your assets between numerous different kinds of investments to

A) Highest risk B) Moderate risk C) Lessen risk D) No risk

7. ROI denotes __________

A) Return on Investment B) Return on Interest

C) Return on Income D) Risk on Investment

8. Variance calculation and measuring the Standard deviation is one way of measuring the ______

A) Risk B) Return C) Speculation D) Gambling

9. Which of the following theories is not a theory of the Term Structure of Interest Rates?

A) Expectations Theory B).Segment Market Theory

C). Portfolio Theory D). Liquidity Theory

10. All of the following are levels of the Efficient Market Hypothesis except................

A). Weak form B). Strong form C). CAMP D). Semi-strong form

[Total 20 marks]

SECTION B

Answer all questions in this Section

Question One

a). Discuss the procedures in Initial Public Offering (IPO) process highlighting the advantages and disadvantages of IPO. **[20 marks]**

b). If the risk free rate of return is 12% and the average market return is 20%, what will be the expected return from a portfolio with a beta factor of 0.945? **[5 marks]**

[Total 25marks]

Question Two

a). Evaluate any five roles of financial system. **[15 marks]**

b). Distinguish between noise investors and rational investors. **[10marks]**

[Total 25marks]

Question Three

There are two assets and three states of the economy:

		Rate of return if	State occurs
State of economy	**Probability of state of economy**	**Stock A**	**Stock B**
Recession	0.10	-0.20	0.30
Normal	0.6	0.1	0.2
Boom	0.30	0.7	0.5

a) Calculate the expected return for each stock **[6marks]**

b) Calculate the variances of the two stocks **[6marks]**

c) Calculate the standard deviations of the two stocks **[4marks]**

d) If you have $20 000.00 in total to invest and put $6 000.00 in Stock A and the balance in Stock B, what will be the expected return and standard deviation on your portfolio? **[5marks]**

e) Comment on your portfolio risk with respect to the two stocks' individual risks. **[2marks]**

b). Calculate the duration in years of a 4 year 8% bond with a par value of $1 000 and a YTM of 10%? **[7marks]**

[Total 30marks]

END OF EXAMINATION QUESTION PAPER