



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING, AND ENTREPRENEURSHIP

EXAMINATION PAPER

COURSE CODE : MSTM5218
COURSE TITLE : Investments and Portfolio management
SPECIAL REQUIREMENTS : None
DURATION : 3 Hours
LEVEL : 2.1
DATE : 12 JUN 2024

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 Section A and any three (3) questions in Section B.
4. The number of marks for each question or part question is shown in brackets []
5. Begin each answer on a new page.
6. **DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR INSTRUCTS YOU.**

SECTION A (Compulsory)

QUESTION ONE

You are thinking about investing your money in the stock market. You have the following two stocks in mind: stock A and stock B. You know that the economy can either go in recession or it will boom. Being an optimistic investor, you believe the likelihood of observing an economic boom is two times as high as observing an economic depression. You also know the following about your two stocks:

State	RA	RB
Boom	10%	-2%
Recession	6%	40%

Calculate:

- the expected return for stock A and stock B (3 marks)
- Calculate the total risk (variance and standard deviation) for stock A and for stock B (4marks)
- Calculate the expected return on a portfolio consisting of equal proportions in both stocks. (3marks)
- Calculate the expected return on a portfolio consisting of 10% invested in stock A and the remainder in stock B. (2 marks)
- Calculate the covariance between stock A and stock B. (3marks)
- Calculate the correlation coefficient between stock A and stock B. (3 marks)
- Calculate the variance of the portfolio with equal proportions in both stocks using the covariance from answer e. (4 marks)
- Calculate the variance of the portfolio with equal proportions in both stocks using the portfolio returns and expected portfolio returns from answer c (3 marks)

SECTION B: Answer any three questions in this section)

QUESTION TWO

Explain any three methods of stock valuation. In your opinion which method suits the Zimbabwean economy and why?

QUESTION THREE

- i) An investor made an investment of \$500 in property and gets back \$570 the next year. If the rate of return is 10%. Calculate the net present value (13 marks)
- ii) Portfolio evaluation and revision are important to any serious investor. Explain. (12 marks)

QUESTION FOUR

Evaluate the implications of the Efficient market hypothesis for:

- i) Investors (9 marks)
- ii) Arbitrageurs (8 marks)
- iii) gamblers (8 marks)

QUESTION FIVE

- i) Explain the importance of embracing technology to an investor. (10 marks)
- ii) What strategies should an investor adopt to avoid fraudulent transactions in trading cryptocurrencies. (15 marks)

END OF EXAMINATION PAPER

13 | 5 (AM)