



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS**

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**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** : 30 JUL 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

An investor decides to invest in three stocks which have the following estimated joint probability distribution of returns.

Outcome	Stock A	Stock B	Stock C	Probabilities
1	-10	10	0	0.3
2	0	10	10	0.2
3	10	5	15	0.3
4	20	-10	5	0.2

- a) Calculate the portfolio's expected return and standard deviation if the investor invests 20% in A, 50% in B and 30% in C. Assume that each security's return is correlated with the returns of other securities. (20 marks)
- b) Why is it beneficial for the investor to spread his investment across the three stocks? (5 marks)

### SECTION B: Answer any three questions in this section

#### QUESTION TWO

Evaluate any four psychological aspects of investment decision making. (25 marks)

#### QUESTION THREE

Differentiate between:

- i) Real and financial investment (5 marks)
- ii) Tactical and dynamic asset allocation (5 marks)
- iii) Active and passive management (5 marks)
- iv) Technical and fundamental analysis (5 marks)
- v) Weak form and strong form (5 marks)

#### QUESTION FOUR

- i) Explain the characteristics of any five investment vehicles. (10 marks)

- ii) Suppose a project requires an initial investment of \$2000 and it is expected to generate a cash flow of \$100 for 3 years plus \$250 in the third year. The target rate of return of the project is 10% per annum. Calculate the net present value of the project (15 marks)

#### QUESTION FIVE

- i) Explain the importance of the efficient frontier in investments and portfolio management. (10 marks)
- ii) "Holding on to a portfolio for five years is as good as not having invested at all." Evaluate this statement citing relevant Zimbabwean examples. (15 marks)

END OF EXAMINATION PAPER