ZIMBABWE EZEKIEL GUTI UNIVERSITY

DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM ACCOUNTING

COURSE: **INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT**

COURSE CODE: **CAC406**

DURATION: **3 HOURS**

15 JUNE 2018

Instructions to candidates

i) Answer all questions on a separate answer sheet provided

ii) Show all workings

iii) Calculators may be used

Additional materials

Financial/statistical tables will be provided

Question 1

Discuss the extent to which the Zimbabwe Stock Exchange (ZSE) is a reflection of the Zimbabwean economy since the multi-currency era, 2009 to date, 2017. Buttress your discussion with some statistics and actual companies (shares) from both the ZSE and the Zimbabwean economy. **(25 marks)**

Question 2

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	0.60	0.10	0.20
Boom	0.30	0.70	0.50

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

b) Calculate the variances and standard deviations of the two stocks **(8 marks)**

c) Calculate the standard deviations of the two stocks in a portfolio, if the two stocks are equally weighted. **(4 marks)**

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? **(5 marks)**

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

Question 3

a) Explain the CAPM theory's propositions and the terms in its formula. **(8 marks)**

b) What are the practical implications of the CAPM? **(7 marks)**

c) What are the limitations of the CAPM? **(10marks)**

Question 4

Gumbere Ltd intends to invest in Project A which is expected to produce Cash flow of $100 million for each of three years.

Given a risk-free rate of 6%, a market premium of 8%, and beta of .75, As a chief investment officer he asks you to:

(a) Calculate the cost of capital of this project using CAPM (Capital Asset Pricing Model). **(5marks)**

(b) Calculate the present value of the project and advice Gumbere ltd on the suitability of the project. **(4marks)**

(c) You have collected information on two securities and you have found that they have the following possible returns.

	Probability	**Return (Trojan)**	**Return (Ashanti)**
(i)	0.1	15	40
(ii)	0.25	30	30
(iii)	0.3	28	20
(iv)	0.2	20	10
(v)	0.15	15	-10

Which investment would you choose using the mean variance rule? **(10marks)**

(d) With aid of an appropriate examples, explain the following terms:

(i) Risk free asset **(3marks)**

(ii) Portfolio **(3marks)**

*****END OF PAPER*****