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(Univer... Technology for Development

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN,BUNGOMA ,NAIROBI,WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR SEMESTER TWO EXAMINATION

FOR DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DBF 234

COURSE TITLE: MONEY AND BANKING

DATE: Wednesday 27th July 2022 **TIME:** 8-10am

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over

QUESTION ONE 30 MARKS (COMPULSORY)

a) Explain three functions of the financial market (6 marks)

b) Differentiate between primary and secondary financial market (4 marks)

c) Highlight the steps followed in the investment management process (6 marks)

d) What are the differences between technical and fundamental analysis? (2marks)

e) If the risk-free rate of return is 6% and the return on the market portfolio is 10%, what is the expected return on an asset having a Beta of 1.4 according to the CAPM? (3mks

f) A stock is expected to pays dividends of shs5.00 for the next 5 years and sells for shs50 at the end of that year. If the cost of equity is 12% what is the value of the stock now and what would happen if the price is above or below the intrinsic price.(4marks)

g) Describe three stock investment strategies to use to achieve an investors risk-return objective (5marks)

QUESTION TWO (20 MARKS)

a) What does covariance measure? If two assets are said to have positive covariance,what does it mean? (4marks)

b) What is the interpretation of the coefficient of determination for the investor? If thecoefficient of correlation for two securities is 0,7, what is the coefficient ofdetermination? (4marks)

c) What does the characteristic line tells to investor? Why stock characteristic linesare different for the securities traded in the same market? (6 marks)

d) Distinguish between random diversification and objective diversification (6marks)

QUESTION THREE(20 MARKS)

Refer to the following information on joint stock returns for stock 1, 2, and 3 in the table

Probability	**Return for stock**		
	Stock 1	**Stock 2**	**Stock 3**
0.20	0.20	0.25	0.10
0.30	-0.05	0.10	0.05
0.25	0.10	0.05	0
0.25	0	-0.10	-0.05

a) If you must choose only two stocks to your investment portfolio, what would be yourchoise?a) stocks 1 and 2; b) stocks 1 and 3; c) stocks 2 and 3; d) other decision. Present your arguments and calculations to explain your decision. (10marks)

b) Explain two assumptions that guide rational investor when making investment decisions. (4marks)

c) Distinguish using an illustration between a security market line and the Capital market line (6marks)

QUESTION FOUR (20 MARKS)

a) Explain the meaning of market efficiency and describe thesignificance of the three main categories for the financial market. (10 marks)

b) What do you understand by Security beta and how is it computed for a listed security in the stock exchange (4marks)

c) Explain the meaning of a well-diversified portfolio and how would an investor confirm that his portfolio is fully diversified. (6marks)