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(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN, WEBUYE, BUNGOMA, , NAIROBI CAMPUS

**UNIVERSITY EXAMINATIONS
2021 / 20 22 ACADEMIC YEAR**

SECOND YEAR EXAMINATION

**FOR DIPLOMA
IN
BUSINESS MANAGEMENT**

F

COURSE CODE: DBF 237

COURSE TITLE: INVESTMENT MANAGEMENT

DATE: Tuesday 2ND August 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 2 Printed Pages. Please Turn Over. ►

QUESTION ONE (30 MARKS)

- a) Explain different ways an organization can use to overcome transaction risk, (4 Marks)
- b) State five major uses of derivatives (5 marks)
- c) Give any four differences between over the counter derivatives and exchange traded Derivatives (8 marks)
- d) Discuss four steps to hedge against currency risk with exchange traded funds ETF. (4 marks)
- e) Explain the different strategies used to manage currency risk (5 marks)
- f) Define The Following Terms (4 marks)
 - i. Transaction risk
 - ii. Hedging

QUESTION TWO (20MARKS)

- a) Outline any four features of efficient market. (8 marks)
- b) Explain the three forms of efficient market hypothesis (EMH) and state whether it is possible for individuals or institutions to outperform the market in each case. (12 marks)

QUESTION THREE 20MARKS)

An investor has a choice of three stocks for investment merit. The rate of return and probabilities are given below.

A		B		C	
Return	Probability	Return	Probability	Return	Probability
-30	0.20	-20	0.15	-20	0.10
0	0.40	0	0.35	0	0.25
30	0.30	20	0.45	20	0.40
70	0.10	40	0.05	20	0.25

- (i) Determine the return for each of the stock A, B, and C. (9 marks)
- (ii) Determine the risk for each of the stock A, B, and C. (9 marks)
- (iii)Based on the above which stock is attractive. Explain (2 marks)

QUESTION FOUR (20 MARKS)

- a) Explain different types of investments(5 marks)
- b) Foreign investment is divided into two types. Explain direct vs. indirect foreign investment (5 marks)
- c) Discuss different types of foreign investment (10 marks)