



# **GRETSA UNIVERSITY - THIKA**

**UNIVERSITY EXAMINATIONS  
MAY-AUGUST 2023 SEMESTER**

**DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DBFI 016**

**COURSE TITLE: INVESTMENT AND PORTFOLIO  
MANAGEMENT**

**DATE:**

**TIME:**

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## **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*

## SECTION A: COMPULSORY

### Question One

Oliver's portfolio comprises Security A which returns 12%, security B with a return of 15% and security C which returned -5%. At the beginning of the year 45% was invested in security A, 25% in security B and the remaining 30% in security C.

- (a) Calculate the return of Oliver's portfolio over the year [12 marks]
- (b) Discuss the components of an investor's required rate of return [10 marks]
- (c) Given that the Treasury Bill is currently trading at 4.5% and the expected rate of inflation of 1.5%, Calculate the Risk free rate. [5 marks]
- (d) Describe the term 'Investment vehicle' and give at least five examples of investment vehicles available in your country. [5 marks]
- (e) Discuss the fundamental sources of uncertainty included in the equity risk premium. [8 marks]

## SECTION B: ANSWER ANY THREE QUESTIONS

### Question two

- (a) In line with structuring an investment portfolio, discuss the factors that influence the efficiency of a portfolio [8 marks]
- (b) Describe the meaning of an Efficient Frontier Curve [6 marks]
- (c) Identify any Five forms of risk considered in arriving at a risk premium [6 marks]

### Question three

- (a) Discuss an investor's approach to the unsystematic risk aspect of Business risk with a view to minimizing his total investment risk [10 marks]
- (b) Differentiate between Capital market line and Securities market line [10 marks]

### Question Four

- (a) The following information relates to the capital structures of companies A and B

	<u>Company A</u>	<u>Company B</u>
Equity	80,000	20,000

Debt	<u>20,000</u>	<u>80,000</u>
Total	<u>100,000</u>	<u>100,000</u>

- (i) Compute the Gearing Ratio of each company [6 marks]
- (ii) Which company has the greater financial risk? [6 marks]
- (b) Discuss the stages in an investor's life cycle [8 marks]

**Question five**

- a) One of the key component measures of the return of securities comprising a portfolio, is the co-variance.  
Explain why a negative covariance is desirable rather than a positive one [6 marks]
- b) Discuss the Four steps of the portfolio management process [8 marks]
- c) Identify the key constraints imposed on investment managers by the investors that require to be addressed in the investment policy statement. [6 marks ]