CENTRAL UNIVERSITY

RESIT EXAMINATION: 2015/2016

DEPARTMENT OF BANKING AND FINANCE

CBBF 306

INVESTMENT MANAGEMENT

LEVEL 300

August 2016

2 ¾ Hours

STUDENT ID No...

INSTRUCTIONS

SECTION A

Answer ALL questions from this section

SECTION B

Answer ONLY ONE question from this section

DO NOT TURN OVER THIS PAGE UNTIL YOU HAVE BEEN TOLD TO DO SO BY THE INVIGILATOR

Section A
Answer all questions

Q1. Distinguish three of between the following:
  a. Systematic risk and Unsystematic risk. *(2 marks)*
  b. Option contract and Futures contract. *(2 marks)*
  c. Money market and Capital markets. *(2 marks)*
  d. Primary markets and secondary markets. *(2 marks)*

Q2. a. XYZ is currently selling for ¢6.5 and paying ¢3.3 dividend. If investors expect dividend to double in 12 years, determine the required rate of return for this stock. *(5 marks)*

  b. ABC Consult is currently trading for Gh¢5 per share and expected to pay dividend of Gh¢0.2 per share. The expected growth rate in dividends is 9% for the foreseeable future. Calculate the required rate of return for ABC stock. *(4 marks)*

Q3. a. Explain the Yield Curve *(2 marks)*

  b. Explain two of the following the following
    i) Expectations theory   *(2 marks)*
    ii) Liquidity premium theory   *2 marks)*
    iii) Market Segmentation theory   *(2 marks)*
    iv) Preferred Habitat theory   *(2 marks)*

Q4. a. Kasoa Meat Factory has a beta of 0.75. The riskfree rate is 20% and the expected return of The market is 32%. The company presently pays a dividend of Gh¢0.2 per share and investors expect dividend to experience a growth of 20% per annum for the foreseeable future.

  i) Calculate Kasoa's required rate of return. *(3 marks)*
  ii) Calculate price of a Kasoa stock. *(2 marks)*

  b . Assume that the expected market return of GSE is 14%. The beta of J&T company is 1.1. If the risk free rate is 8%
    a. Calculate the slope of the SML *(2 marks)*
    b. Calculate the expected return on the market. *(3 marks)*

Q5 a. If the return on a two year bond is 44% and a 1 year treasury note has a yield of 18%, determine the implied rate a 1 year treasury note holder earns when he wants to roll it over for another year. *(4 marks)*

  b. The dividend per share and earnings per share of Kokotako Textiles are Gh¢3 and Gh¢7 respectively. Dividends are expected to grow at the rate of 9% and investors expect a return of 17% at this risk level.

i) What is the price per earnings multiplier? *(3 marks)*

ii) What is the price per share? *(2 mark)*

Section B
Answer any two questions
(Each question carries 30 marks. Total marks – 60)

Q6

a. Explain the term risk. *(6 marks)*

b. Forty percent of Atia's investment is in ABC shares, and the remainder in XYZ shares. It is expected that ABC will give a return of 25%, and XYZ 20%. It is expected that ABC will give a return of 18 percent and XYZ 16%. The standard deviation of returns for ABC is 19% and that of XYZ is 15%. If the correlation coefficient between the two securities is 0.82, calculate

   i. The expected return of Atia's portfolio. *(5 marks)*

   ii. The standard deviation (risk) of the portfolio. *(7 marks)*

c. Calculate the expected return and risk (standard deviation) for A&B Company given the following information:

   Probabilities :   0.15, 0.20, 0.40, 0.10, 0.15

   Expected returns: 0.20, 0.16, 0.12, 0.05, -0.05   *(12 marks)*

Q7

a. Assume that the risk free rate is 7% and the expected market return is 13 percent. Determine the equation of the security market line. Assume that an investor has estimated the following values for 6 different companies:

Company	Beta	Return (%)
ABC	0.8	12
QRS	0.9	13
XYZ	1.0	14
NIC	1.2	11
SSS	1.2	21
SBC	1.5	10

i. Calculate the expected return for each company using SML, *(7 ½ marks)*

ii. Evaluate which security is overvalued and which is undervalued. *(7 ½ marks)*

b. Ganyobi Farms is expected to pay Gh¢0.35 in year 1, Gh¢0.38 in year 2, Gh¢0.46 in

year 3 and Gh¢0.48 in year 4. After year 4 dividend is expected to grow at a constant rate of 8% till infinity. The beta for Ganyobi Farms is 0.871 and the risk free rate is 13.4%. The expected market return is 18%.

Calculate the intrinsic value of Ganyobi Farms. *(15 marks)*

Q8

a. Explain three of the following
   i. Underwriting
   ii. Syndicating
   iii. Prospectus
   iv. Best Effort
   v. Private Placement *(3 marks each)*

b.
   i.   Explain the term market capitalization *(3 marks)*
   ii. Describe how the Ghana Stock Exchange All Share Index is calculated *(3 marks)*
   iii. List three factors that can cause the base period market capitalization to change. *(3 marks)*

c. Ananse State stock exchange consists of 8 listed shares. The data on these shares are below:

Security	No of shares issued	Price per share
A	100,000	Gh¢5
B	200,000	Gh¢2
C	400,000	Gh¢6
D	300,000	Gh¢4
E	200,000	Gh¢5
F	800,000	Gh¢3
G	500,000	Gh¢5
H	600,000	Gh¢7

i. Determine the Ananse State all share index if the base base period market capitalization is Ghs 7,500,000 *(6 marks)*
ii. Determine the new all share index if the price of securities D and G increases to Gh¢6 and Gh¢8 respectively. *(6 marks)*

Q9

a. Discuss two main characteristics of investment. *(4 marks)*

b. What is an investment company? *(6 marks)*

c. Write a short notes on the following:
   i. Closed end investment company *(5 marks)*
   ii. Open ended investment company *(5 marks)*

d. Distinguish between mutual fund and money market mutual fund. *(8 marks)*
e. Give two examples of mutual funds in Ghana. *(2 marks)*