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CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

End of Second Semester Examination, 2018/2019 ACADEMIC Year

Level 400

CSBF 413: INVESTMENT AND PORTFOLIO MANAGEMENT

MAY 2019 **TIME: 2 HOUR 30 MINUTES.**

GENERAL INSTRUCTIONS: ANSWER QUESTION **ONE (1)** AND ANY OTHER **TWO (2).** QUESTION ONE CARRIES **30 MARKS**. ALL OTHER QUESTIONS CARRY **20 MARKS**.

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Question 1.

An efficient Portfolio construction involves assessing the exposure of individual securities to the factors and expected returns of the securities. Expected Returns can be obtained subjectively without any formal analysis, by using technical analysis or by using financial models.

Discuss how the following financial models could be used to select securities for an efficient portfolio construction.

I. Discounted Cash flow models **(10 marks)**
II. Capital Asset Pricing model **(10 marks)**
III. Multi – factor Asset Pricing model **(10 marks)**

Question 2

Describe the following risks associated with investing.

I. Liquidity Risk **(5 marks)**
II. Systematic versus Unsystematic Risk **(8 marks)**
III. Inflation or Purchasing Power Risk **(4 marks)**
IV. Exchange Rate or Currency Risk **(3 marks)**

Question 3

a. Micro – Drive Inc has been growing at a phenomenal rate of 30% per year because of its rapid expansion and explosive sales. You believe that this growth rate will last for three more years and that the rate will then drop to 10% per year. If the growth rate then remains at 10% indefinitely, what is the total value of the stock? Total dividends just paid were \$5million, and the required return is 20%. **(12 MARKS)**

b. **The** next dividend for Gordon Growth Company will be \$4 per share. Investors require a 16% return on investment on Companies such as Gordon. Gordon's dividend increases by 6% every year. Based on the dividend growth model, what is the value of Gordon's stock today? What is the value in four years? **8 MARKS**

Question 4

Suppose the risk – free rate is 8%. The expected return on the market is 16%. If a particular stock has a beta of 0.7.

a) What is the expected return based on Capital Asset Pricing Model.? **(8 MARKS)**
b) If another stock has an expected return of 24%, what must its beta be? **(4 MARKS)**
c) What is the fundamental relationship between risk and returns in a well – functioning market?**(4 MARKS)**
d) What does a Beta Coefficient measure? **(4 MARKS)**

Examiner : Fosu Adarkwah

Question 5

A. Supposed Ford Motor Company sold an issue of bonds with a 10year maturity, a \$1000 par value, a 10% coupon rate and semi –annual interest payments. What is the value of this bond? **(6 MARKS)**

a) What is the cashflows associated with a Bond?(**2 MARKS**)

b) Identify any two risks that affect the value of a bond. (**2 MARKS**)

c) To evaluate a semiannual bond, we modify the valuation model. Describe how the following elements of the model are treated

   i. Coupon Payments (**2 MARKS**)

   ii. Maturity period (**2 MARKS**)

   iii. Nominal (quoted)interest rate (**2 MARKS**)

B. Wilson Wonders bonds have 12 years remaining to maturity. Interest is paid annually; the bonds have a \$1000 par value and coupon interest rate is 10 percent. The bond sells at a price of \$850. What is the Yield to Maturity? (**6 MARKS.**)