

NAME

SIGNATURE

DATE



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

MSC ACCOUNTING AND FINANCE

END OF SECOND SEMESTER EXAMINATIONS – 2021/2022 ACADEMIC YEAR

LEVEL 500

MASF 510: INVESTMENT AND PORTFOLIO MANAGEMENT

JANUARY ADMISSION

AUGUST, 2022

130 MARKS

TIME ALLOWED: 3 HOURS

GENERAL INSTRUCTIONS TO CANDIDATES:

- *The paper is divided into three sections; A, B and C*
- *Answer all questions in Sections A and B*
- *Answer only one question from section C.*
- *Write your index number on top of the question paper and every page of the answer booklet used.*

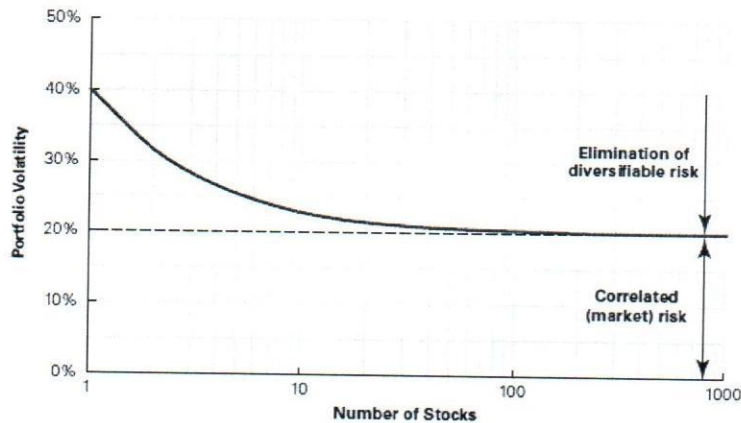
Examiner: Osei-Anim Reindolph

SECTION A

50marks

Circle the correct answer

- The average compound return from a stock per year over a particular period is measured by
 - Geometric Average return
 - Arithmetic Average return
 - Both Geometric and Arithmetic average returns
 - None of the above
- Consider the diagram below



What conclusion(s) can be drawn from the above?

- The volatility of stocks is independent of the number of stocks
 - Elimination of diversifiable risk is positively correlated with market risk
 - The volatility of a portfolio decreases with increasing number of stocks
 - The volatility of a portfolio increases with increasing number of stocks
- A particular investment had an annual returns of 10 percent, 12 percent, 3 percent and -9 percent over the last four years. The arithmetic and geometric means for this investment are respectively.
 - 4, percent, 3.7 percent
 - 3.7 percent, 4 percent
 - 4.8 percent, 5 percent
 - 12 percent, 10 percent
 - How many years will take for an initial investment of \$200 to grow to \$544 if it is invested today at 8% compounded annually?
 - 8 years
 - 10 years
 - 11 years
 - 13 years
 - Assuming two investments have equal lives, a high discount rate tends to favour.....
 - the investment with large cashflows early
 - the investment with large cashflows late

- C. three investment with even cashflows
D. neither investment since they have equal interests
6. High discount rates favour
- A. long-term investments
 - B. short-term investments
 - C. both long-term and short-term investments
 - D. neither long-term nor short-term investment
7. What is the present value of \$12,500 to be received 10 years from today assuming a discount rate of 8% compounded annually and round to the nearest \$10?
- A. \$5,790
 - B. \$11,574
 - C. \$9,210
 - D. \$17,010
8. The present value of a single sum of money
- A. increases as the discount rate decreases
 - B. decreases as the discount rate decreases
 - C. increases as the number of discount periods increase
 - D. increases as the discount rate increases
9. What is the value of \$750 invested at 7.5% compounded quarterly for 4.5 years?
- A. \$1,048
 - B. \$1,010
 - C. \$1,038
 - D. \$808
10. If \$100 is deposited into a savings account at the end of each year for three years. How much will be generated if the savings account earns an interest of 5 percent per year.
- A. \$150
 - B. \$315.25
 - C. \$1000
 - D. \$350
11. If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?
- A. The stock has a low level of risk
 - B. The stock offers a high dividend pay-out ratio
 - C. The market is undervaluing the stock
 - D. The market is overvaluing the stock
12. How many years will take for an initial investment of \$200 to grow to \$544 if it is invested today at 8% compounded annually?
- A. 8 years
 - B. 10 years
 - C. 11 years
 - D. 13 years
13. Assuming two investments have equal lives, a high discount rate tends to favour.....
- A. the investment with large cashflows early
 - A. the investment with large cashflows late
 - B. three investment with even cashflows
 - C. neither investment since they have equal interests
14. High discount rates favour
- A. long-term investments
 - B. short-term investments

- C. both long-term and short-term investments
D. neither long-term nor short-term investment
15. What is the present value of \$12,500 to be received 10 years from today assuming a discount rate of 8% compounded annually and round to the nearest \$10?
A. \$5,790
B. \$11,574
C. \$9,210
D. \$17,010
16. The present value of a single sum of money
A. increases as the discount rate decreases
B. decreases as the discount rate decreases
C. increases as the number of discount periods increase
D. increases as the discount rate increases
17. What is the value of \$750 invested at 7.5% compounded quarterly for 4.5 years?
A. \$1,048
B. \$1,010
C. \$1,038
D. \$808
18. If \$100 is deposited into a savings account at the end of each year for three years. How much will be generated if the savings account earns an interest of 5 percent per year.
A. \$150
B. \$315.25
C. \$1000
D. \$350
19. If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?
A. The stock has a low level of risk
B. The stock offers a high dividend pay-out ratio
C. The market is undervaluing the stock
D. The market is overvaluing the stock
20. All the following are true about geometric and arithmetic averages except
A. When rates of return are the same for the years then GM will be equal to AM
B. When the rates of return vary over the years, GM will always be greater than AM
C. Year- to year changes in the rates of return determines the difference between GM and AM
D. The higher the volatility of the investment the smaller the difference between GM and AM
21. An efficient market is defined as one in which
A. all participants have the same opportunity to make the same returns
B. all participants have the same legal rights and transaction costs.
C. securities price quickly and fully reflect all available information.
D. securities prices are completely in line with the intrinsic value
22. All "know" information in the market means;
A. Part information only
B. part and current information
C. Past, current and inferred information
D. Past, current, inferred and relative information

23. The beta coefficient measures
- A. The variability of the returns on the market relative to the responsiveness of an assets return
 - B. The responsiveness of the returns of an asset relative to the returns on the market as whole
 - C. the variability of the market returns relative to the market portfolio returns relative to the market portfolio returns
 - D. The responsiveness of the returns of the market portfolio relative to an standard deviation
24. What is the main difference between stocks and bonds?
- A. Bonds represent ownership whiles shares do not
 - B. Shares represent ownership whiles bonds do not
 - C. Shares and bonds both represent equity
 - D. Shares and bonds both represent liabilities.
25. What is the price of a 15-year zero coupon bond that has a par value of \$1000 and a required return of 8%? Assume a semi-annual compounding
- A. \$464
 - B. \$315
 - C. \$308
 - D. \$555
26. The market price of a bond changes due to
- A. The supply and demand of the bond in the market
 - B. Investor's perception
 - C. changes in interest rate
 - D. all of the above
27. What is the result of the widespread usage of the interval with regards to efficient markets?
- A. It makes information cheaper and more accessible thus making markets more efficient
 - B. It is subject to new regulation thus making markets less efficient
 - C. It increases the volatility of security price thus making markets less efficient
 - D. The increase competition among brokers thus making market more efficient.
28. If a market is inefficient, as new information is received about a security
- A. nothing will happen
 - B. the stock price will fall at first and then rise later
 - C. there will be a lag in the adjustment of the stock price
 - D. there will be negative demand for the stock
29. The disposition effect relates to the fact that
- A. investors tend to be overconfident regarding potential stock prices
 - B. investors often experience regrets about trading decisions
 - C. investors are more likely to sell winners than loser
 - D. investors tend to dispose of stocks at the end of the year
30. According to the random walk hypothesis, prices
- A. over time are independent of one another
 - B. changes over time are independent
 - C. levels over time are independent

- D. changes today are dependent on yesterday's price changes
31. Lakamuun bought 100 shares of a leading diamond company with an expected return of 20 percent per year. The following day the company's president announced a major new discovery in Osino. The stock price immediately doubled. This scenario best illustrates that the
- weak form EMH is not valid
 - Semi-strong form of EMH is not valid
 - market prices are random
 - Lakamuun was just lucky
32. With regards to market efficiency, identify the incorrect statement
- information is the central issue of the efficient markets concept
 - the most stringent form of market efficiency is the strong form
 - the efficient market concept does not require a perfect adjustment in price following new information
 - tests of the usefulness of price data are semi-strong form tests
33. Volatility of risk of a single asset is usually measured by
- Variance
 - Covariance
 - Standard deviation
 - Beta
34. Which of the following investment will be characterized by the highest monetary return at the end of the investment horizon? Assume annual compounding
- 5 years at the interest rate of 5% per year
 - 7 years at the interest rate of 3% per year
 - 4 years at the interest rate of 9% per year
 - 2 years at the interest rate of 6% per year
35. If C_o stands for the initial cash flow, r for the rate of interest (annual) and " n " for the number of periods (years) then the future value (FV) is given by
- $FV = C_o(1+r)^n$
 - $FV = C_o + (1+r)^n$
 - $FV = \frac{C_o}{(1+r)^n}$
 - $FV = C_o(1+r)^n$
36. If an asset has a zero beta, then it can be described as
- very risky
 - risk free
 - riskier than the market portfolio
 - having the same risk as the market portfolio
37. A bank uses the policy of half yearly compounding for its term deposits. A customer deposits \$10,000 for 5 years. The bank has mentioned 9% compounding, calculate the maturity amount
- \$15,387
 - \$16,506
 - \$15,530
 - \$15,657

38. The dividend discount model
- ignores capital gains
 - incorporates the after-tax value of capital gains
 - includes capital gains implicitly
 - restricts capital gains to minimum
39. Lakamuun Inc. purchased a share of Bonamah Inc. common stock exactly one year ago for \$45. During the past year the common stock paid an annual dividend of \$2.40. The firm sold the security today for \$85. What is the rate of return the firm has earned?
- 5.3%
 - 194.2 %
 - 94.2%
 - 35.34%

40. Consider the following Bonds: X and Y

	Time to maturity	Yield to maturity	Coupon rate
Bond X	12 years	5%	6%
Bond Y	8 years	7%	6%

Bond X has ____ interest rate risk than Bond Y and Bond X sells at a ____ price than Bond Y.

- Higher; Lower
 - Higher; higher
 - Lower; higher
 - Lower; lower
41. Which of the following statements is most correct?
- If annual compounding is used, the effective annual rate equals the nominal rate
 - If annual compounding is used, the effective annual rate equals the periodic rate
 - If a loan has a 12% nominal rate with semi-annual compounding its effective annual is equal to 11.66%
 - Statements A and B are correct
42. What is the value of \$100 perpetuity if interest rate is 7%?
- \$12,321
 - \$1429
 - \$21,350
 - \$1443
43. Which of the following is likely to earn more future value?
- Annual compounding
 - Semi-annual compounding
 - Monthly compounding
 - Daily compounding

44. All the following are characteristics of dividend except
- A. dividends are not liability of the firm even when declared by the board
 - B. a firm cannot go bankrupt for not declaring dividends
 - C. dividends payments are not considered a business expense
 - D. dividends received by corporation have a minimum of 70% exclusion from taxable income
45. The main difference between dealers and brokers is that
- A. dealers do not hold inventory of stocks but brokers do so
 - B. dealers hold inventory of stocks but brokers do not
 - C. dealers facilitate the coming together of buyers and sellers of stock but brokers don't
 - D. Dealers make profit by buying shares at the ask price and sell them at the bid price
46. Interest rates and bond prices
- A. move in the same direction
 - B. move in opposite directions
 - C. are independent of each other
 - D. sometimes moves in the same direction, sometimes in opposite directions.
47. The total return from a stock is expressed as below

$$K_s = \frac{D_1}{P_0} + g$$

What does g represent in this formula?

- A. the expected price appreciation yield from a common stock
 - B. the expected dividend yield from a common stock
 - C. the dividend yield from a preferred stock
 - D. the interest payment from a bond
48. Which of the following statements can be made about a bond with the following features?
Face value \$1000, coupon rate 8%, required rate of return is 15 percent
- A. The value of the bond is more than the face value
 - B. The value of the bond is less than its face value
 - C. The value of the bond is equal to the face value
 - D. The value of the bond is greater than its intrinsic value
49. All the following are conclusive facts about risks of financial assets except
- A. The riskiness of an asset is judged in terms of the riskiness of its cashflows
 - B. The riskiness of an asset can be considered on a stand-alone basis or in a portfolio context
 - C. The riskiness of an asset can be considered in a portfolio context only
 - D. Portfolio risk is much less than stand-alone risk
50. A stock begins the year with a price of \$30 per share and ends with a price of \$40 per share. During the year it paid a \$4 dividend per share. What is the total return for the year?
- A. 40 percent
 - B. 47 percent
 - C. 13 percent
 - D. 33 percent