



RIARA SCHOOL OF BUSINESS
NURTURING INNOVATORS
MAY AUGUST 2023 SEMESTER EXAMINATIONS
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION (FINANCE)
RFN 304: SECURITIES ANALYSIS AND INVESTMENT MANAGEMENT
DAY PROGRAMME

DATE: 9TH AUGUST 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book
11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain **five** assumptions of the Capital Asset Pricing Model (CAPM). How realistic are those assumptions? **(10 marks)**
- b) Examine **five** important macroeconomic variables and policies that investment analysts regularly look at in fundamental analysis of investments **(10 marks)**
- c) A publicly listed company has just reported earnings of KES. 10.00 per share. The company's dividend policy is to distribute 50% of earnings. The company is expected to maintain an ROE of 20% into the foreseeable future. The risk free rate is 8%, the expected market return is 15% and the beta of the stock is 1.0. Determine:
- i) The required rate of return on the company's stock. **(2 marks)**
 - ii) The intrinsic value of the stock **(6 marks)**
- d) Suppose the market price of the company is KES 200.00 per share give your investment recommendation. **(2 marks)**

QUESTION TWO

- a) Evaluate **three** types of orders used in secondary market trading of securities. **(6 marks)**
- b) Explain **seven** behavioral biases that are common among investors **(14 marks)**

QUESTION THREE

- a) Explain **five** roles of the transaction advisor in an IPO. **(10 marks)**
- b) Describe **five** market anomalies associated with the Efficient Market Hypothesis **(10 marks)**

QUESTION FOUR

- a) Evaluate **five** financial ratios used to evaluate the safety of bond investments. **(10 marks)**
- b) Distinguish the following terminology:
- i. Operating leverage and financial leverage **(2 marks)**
 - ii. Fundamental analysis and technical analysis **(2 marks)**
 - iii. Behavioural biases and information processing errors **(2 marks)**
 - iv. Callable and puttable bonds **(2 marks)**
 - v. Operational and informational efficiency of markets **(2 marks)**