INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: MBA
YEAR/SEM: YEAR 2/SEMESTER 1
COURSE CODE: MBA 814
NAME: INVESTMENT ANALYSIS AND CAPITAL MARKET

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

SECTION A IS COMPULSORY

Question 1:

CASE STUDY

Risk and Expected Return: Assume that the present value of an investment is 100; the investor expects a real time rate of 3% per annum and the expected inflation rate is 3% per annum. If the investor were to receive only the real time rate, he would get back 103 at the end of one year. The real rate of return received by the investor would be equal to zero because the time preference rate of 3% per annum is matched by the inflation of 3% per annum. If the actual inflation rate is greater than 3% per annum, the investor would suffer negative returns. Thus, nominal rate of return on a risk-free asset is equal to the time preference real rate plus expected inflation rate. If the investment is in capital assets other than government obligations, such assets would be associated with a degree of risk that is idiosyncratic to the investment. For an individual to invest in such assets, an additional compensation, called the risk premium will have to be paid over and above the nominal rate of return.

What are various types of risks in different investment instruments? (40 Marks)

Question 2:

CASE STUDY

Common Errors in Investment Management:

When investment mistakes happen, money is lost. Mistakes can occur for a variety of reasons, but they generally happen because of the clouding of the investor’s judgment by the influence of emotions, not applying basic investment principles, or misconceptions about how securities react to varying economic, political, and fear-driven circumstances.

The investor should always keep a rational head and avoid these common investment mistakes:

Explain with Examples at least the Four (4) common Investment mistakes:

(40 Marks)

SECTION B

ATTEMPT ANY THREE QUESTIONS FROM THIS SECTION

Question 1:

a) What are the features of Bonds/Debentures? (10 Marks)
b) What are the main roles of the Financial Intermediaries; (5 Marks)
c) Why Investors prefer Short- Term Instruments? (5 Marks)

Question 2:

a) Why do people stick out their necks to invest? (5 Marks)
b) Distinguish between fixed and non-fixed income investments (10 Marks)
c) How is Compound interest paid? (5 Marks)

Question 3:

a) How can financial intermediaries reduce the risk of poor returns? (5 Marks)
b) Why is returns so important in investment practice? (5 Marks)
c) What is the importance of evaluating investment instruments? (10 Marks)

Question 4:

1)When evaluating an investment, they are three attributes that are relevant- Please explain the three attributes (10 Marks)
2) What is the difference between Direct and Indirect Investments: (10 Marks)

Question 5:

1) Define the word “investment.” (5 Marks)
2) Give the difference between Treasury bills and Bonds.” (5 Marks)
3) Discuss the first step in investing which is “meeting investment prerequisites.” (10 Marks)

Question 6:

Explain the Information needs of the following Decision Makers, the Decision to be made and the tools to be used. Decision makers. Management, Owners of the company, Employees, Trade Creditors, Bankers, Prospective Investors and Government; (20 Marks)

Question 7:

Mutual funds are also known as indirect investments. It is an alternative route of buying equity shares or fixed income securities through various schemes floated by mutual funds companies. Explain the three broad types of mutual fund schemes. (20 Marks)

Question 8:

a) Discuss the difference between Primary market and Secondary market (10 Marks)
b) Discuss with Examples what you understand by current Income and Capital Income (10 Marks)

Question 9:

Explain with Examples four Risks Associated with investment in Bonds (20 marks)

Question 10:

Discuss the feature of fixed-income securities (10Marks)
What are the advantages of investment in real estate (5 Marks)
Why Investors prefer Short- Term Instruments? (5 Marks)

Question 11:

In addition to inflation, there are at least five other important economic variables that can significantly affect the level of interest rates. These are: (10Marks)
Define the Money market funds (5 Marks)
What is Involved in Security analysis? (5 Marks)

Question 12:

a) Explain the Country/Political Risk/Event Risk: (5 Marks)
b) Discuss two types of investment you know. (5 Marks)
c)What is financial investment? (5 Marks)
d)What is the concept of derivative securities. (5 Marks)