PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY-APRIL 2025

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 402

COURSE TITLE: PORTFOLIO MANAGEMENT

EXAM DATE:

QUESTION ONE (COMPULSORY) (10 MARKS)

a. Discuss the modern portfolio theory according to Henry Makorwitz. Use a diagram to explain your answer (6 marks)

b. Explain **four** limitation of Henry Makorwitz modern portfolio theory. (4 marks)

QUESTION TWO (10 MARKS)

a. Explain the significance of efficient Frontier in Capital Asset Pricing Model. (5 marks)

b. Discuss the five limitations of the efficient frontier using suitable examples. (5 marks)

QUESTION THREE (10 MARKS)

a. Explain Arbitrage Pricing Model. (2 marks)

b. Describe the two main differences between Arbitrage Pricing Model (APT) and Capital Asset Pricing Model (CAPM). Use suitable examples (8 marks)

QUESTION FOUR (10 MARKS)

a. Using suitable examples, explain the following:

   i. Intrinsic value of an option (3 marks)

   ii. Time value of an option (3 marks)

b. A call currency option enables you to buy a dollar for shs. 50.00 while it is quoted at shs. 50.70 in the spot market, and premium paid for call currency option is shs. 1.00. Calculate the intrinsic value of the call. (4 marks)

QUESTION FIVE (10 MARKS)

a. Describe how a subordinate debt works. (5marks)

b. Explain **two** reasons why companies issue convertibles. (5 marks)

QUESTION SIX (10 MARKS)

Use suitable examples to explain the various sources of :

i. systematic risks and (5 marks)

ii. unsystematic risks. (5 marks)