PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY - APRIL SEMESTER 2023

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 304

COURSE TITLE: PORTFOLIO MANAGEMENT

EXAM DATE:

QUESTION ONE (COMPULSORY) 10 MARKS

a. Using suitable examples differentiate between

   i. Investment and Speculation (3 Marks)

   ii. Security analysis and Portfolio management (3 Marks)

b. Discuss the importance of primary markets. (4 Marks)

QUESTION TWO 10 MARKS

a. Discuss the assumptions of Markowitz portfolio theory (5 Marks)

b. Explain the Markowitz efficient frontier. (5 Marks)

QUESTION THREE 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 enable 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 FOUR 10 MARKS

a. Using a suitable illustration explain how a warrant works. (5 Marks)

b. State **five** characteristics of warrants (5 Marks)

QUESTION FIVE 10 MARKS

a. Discuss the assumptions of the Capital Asset Pricing Model (CAPM) (5 Marks)

b. Discuss **five** differences between the Capital Market Line (CML) and Securities Market Line (SML) (5 Marks)

QUESTION SIX **10 MARKS**

a. Discuss the following convertible securities giving suitable examples:
   i. Convertible bond (2 marks)
   iii. Convertible preferred stock (2 marks)

b. Explain the following using suitable illustrations:
   i. Investment value (2 marks)
   ii. Investment premium (2 marks)
   iii. Conversion Price (2 marks)