

SECTION A

ESSAY (100 MARKS)

INSTRUCTION :

This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

QUESTION 1

- a) Define the following terms :
- i. Primary market
 - ii. Secondary market
 - iii. Capital market
 - iv. Money market (8 marks)
- b) Briefly explain **TWO (2)** components of return on investment. (4 marks) :
- c) Define marketable securities. Give **TWO (2)** examples of marketable securities. (4 marks)
- d) Briefly explain the following methods of shares issuance:
- i. Initial Public Offering (3 marks)
 - ii. Rights Issue (3 marks)
 - iii. Bonus Issue (3 marks)

EXAMINATION AND EVALUATION DIVISION
DEPARTMENT OF POLYTECHNIC EDUCATION
(MINISTRY OF HIGHER EDUCATION)

COMMERCE DEPARTMENT

FINAL EXAMINATION
JUNE 2012 SESSION

P4122 : INVESTMENT MANAGEMENT

DATE : 19 NOVEMBER 2012 (MONDAY)
DURATION : 2 HOURS (2.30 PM – 4.30 PM)

This paper consists of **FOUR (4)** pages including the front page.
Section A: Essay (4 questions – answer all)

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THE CHIEF INVIGILATOR

QUESTION 3

- a) Compare **THREE (3)** differences between Fundamental Analysis and Technical Analysis.
(6 marks)
- b) Discuss **THREE (3)** advantages of using Technical Analysis in investment.
(9 marks)
- c) Briefly explain **TWO (2)** disadvantages involved in Fundamental Analysis that are considered as advantages for Technical Analysis.
(6 marks)
- d) List **FOUR (4)** popular charts used by the chartist in Technical Analysis.
(4 marks)

QUESTION 4

- a) Warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price until the expiry date. Warrants function as a sweetener to bonds or preferred stock allowing the issuer to pay lower interest rates or dividends.
- i. Discuss on the main characteristics of warrants.
(12 marks)
- ii. Explain **THREE (3)** factors that affect the price of warrants.
(9 marks)
- b) Differentiate features on 'par value' to 'preferred dividend' on evaluating preferred stock.
(4 marks)

QUESTION 2

- a) Explain briefly on any **TWO (2)** components in investment return.
(4 marks)
- b) Explain briefly on any **TWO (2)** components in the risks of investment.
(4 marks)
- c) The schedule below is given:

Securities	Beta	Estimated Return (%)
A	1.0	12.5
B	0.6	10.5
C	1.2	13.0

Estimated rate of market return is at 12.5% meanwhile the risk-free rate is at 5%. Based on the Capital Asset Pricing Model (CAPM):

- i. Determine the Required Rate of Return for each security.
(6 marks)
- ii. Based on answer (i), sketch the Security Market Line and pin-point the position of each security.
(5 marks)
- iii. Determine which of the security is overvalued and undervalued.
(2 marks)
- iv. Determine which of the security is 'aggressive' and 'defensive.'
(2 marks)
- v. Determine which of the security you should buy. Give your reason.
(2 marks)