



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS
FIRST YEAR EXAMINATION FOR THE AWARD OF THE
DIPLOMA IN ACCOUNTING AND FINANCE/COMMERCE
FIRST SEMESTER 2023/2024
[AUGUST-DECEMBER, 2023]

DIAF 0113: INVESTMENT THEORY

STREAM: Y1 S1

TIME: 2 HOURS

DAY: TUESDAY, 9.00 – 11.00 A.M.

DATE: 29/11/2023

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Questions ONE and any other THREE Questions***

QUESTION ONE :(25 MARKS)

- a.) Compare and contrast between investment performance and investment appraisal. (10marks)
- b.) Discuss the meaning of the following terminologies: (6marks)
- Portfolio risk
 - Risk diversification
 - Expected rate of return

Mr. White invested in stocks Sunset and Sunrise which have the following features:

Economic conditions	Probability	Returns (%)	
		Sunset	Sunrise
Boom	0.3	24	21

Recession	0.4	22	18
Depression	0.5	16	14

As the finance manager of the company, determine the expected return of each security. (14marks)

QUESTION TWO :(15 MARKS)

Investment opportunities are available to the investor in many types and many combinations.

Give a detailed account on the types of investment. (15marks)

QUESTION THREE:(15MARKS)

- i.) Define Risk. Explain the two types of risk and provide examples (5marks)
- ii.) Explain the Assumptions of CAPM (capital asset pricing model). (10marks)

QUESTION FOUR:(15MARKS)

Explain with illustrations for each of the following types of investment projects:

- i. Independent projects
- ii. Mutually Exclusive projects
- iii. Contingent projects

QUESTION FIVE:(15MARKS)

Expound on the various investment theories that can help the financial management team to make complex and critical investment decisions.

QUESTION FIVE:(15MARKS)

Discuss the capital budgeting process that a firm can incorporate to uphold efficiency and effective utilization of scarce resources available at its disposal.