

DIAF 0122: FUND MANAGEMENT

INSTRUCTIONS

- 1. Do not write anything on this question paper.**
- 2. Answer Question ONE (Compulsory) and Any Other THREE Questions.**

QUESTION ONE (30 MARKS)

- (a) Briefly explain three (3) practical use of capital asset pricing model (CAPM) (6 marks)
- (b) Explain the main characteristics of the efficient market hypothesis (EMH) (10 marks)
- (c) Distinguish between the following markets citing the institutions and instruments used.
- i. Money market and capital market. (4 marks)
- ii. Primary market and secondary market. (5 marks)

QUESTION TWO

- (a) The following information relates to the forecast of securities A and B and their probabilities during the year ending 30th June 2022.

Probability	Security A Rate of Return	Security B Rate of Return
0.2	10%	8%
0.1	12%	10%
0.35	8%	7%
0.05	15%	12%
0.15	14%	11%

0.15 9% 8%

Required:

Calculate the expected return, standard deviation and coefficient of variation on Securities A and B. [10 marks]

(b) The value of an option is determined by a number of variables relating to the underlying asset and financial market, Discuss [5 marks]

QUESTION THREE

(a) With reference to the measurement of portfolio risk, distinguish between portfolio theory and capital asset pricing model. [5 marks]

(b) Define the following terms

- (i) Financial risk [2 marks]
- (ii) Business risk [2 marks]
- (iii) Systematic risk [2 marks]
- (iv) Unsystematic risk [2 marks]
- (v) Return on asset [2 marks]

QUESTION FOUR

a. Analyze methods that financial institutions have developed to mitigate incidence of credit risk in bank lending to small and medium enterprise in Kenya. (8 marks)

b. Examine common loan covenants imposed by the lender with which the borrower must comply in order to adhere to the terms in the bank loan agreement in Kenya. (7 marks)

QUESTION FIVE

- a. Explain the advantages and disadvantages of buying an existing business in Kenya. (7 marks)

- b. Distinguish difference between business angels and venture capital lists. (8 marks)