



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**JANUARY – APRIL 2017 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EVENING PROGRAMME**

**CFI 421: SECURITIES ANALYSIS**

**Date: APRIL 2016** **Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Discuss 3 non-marketable securities and three marketable securities. Explain the major difference between these two categories of securities **(10 marks)**
- b) Write short notes on the following concepts
- i) Futures **(2 marks)**
  - i) Securities **(2 marks)**
  - ii) Options **(2 marks)**
  - iii) Hedge funds **(2 marks)**
- c) State five assumptions of technical approach to security analysis **(5marks)**
- d) The following table shows forecasts of expected rates of return of two hypothetical firms, Blueline Co (K) [B] Ltd and Yellowline Co (K) Ltd [Y]. The two firms are assumed to be inversely affected by the business economic cycle.

Economic condition	Probability	Blueline (B) (%R <sub>i</sub> )	Yellowline (Y) (%R <sub>i</sub> )	Z (B+Y) (50%B, 50% Y)
Very bad	0.10	(4)	36.0	16.0
Bad	0.22	2.0	26.0	14.0
Average	0.36	10.5	16.0	13.25
Good	0.22	18.0	1.8	9.90

Very good	0.10	21.0	(6)	7.50
	1.0			

- i) Define both risk and return and explain how they relate **(3marks)**
- ii) Compute ; the mean ,variance and standard deviation of each security **(10marks)**
- Q2. a) Investment management process can be disclosed by five-step procedure, discuss **( 10marks)**
- b) The macro economy is the study of how all firms operates in economic environment. Discus 5 key macro-economic variables and describe their impact on securities markets **(10marks)**
- Q3. a) Discuss the relevance of securities exchange markets in the modern economies **(10 marks)**
- b) A broker is a representative appointed by an individual investor to make transactions on their behalf. Discuss any three of their characteristics **(6 marks)**
- c) State any four characteristics of a margin account **(4marks)**
- Q4. a) We would like to value a Microsoft call option with a strike price of ksh. 70 in the year 2000. Microsoft closed at ksh. 70.75 On August 23 (58 days before option expiration). Microsoft pays no dividends. A T-bill rate with about 58 days to maturity to be 6.10%.To determine the volatility of returns, we assume the annual standard deviation of MSFT returns to be 0.5671. Compute the value of the call option **( 10 marks)**
- b) Many industrial economists believe that the development of almost every industry may be analyzed in terms of industrial life stages, discuss these stages explaining how they affect the security investment decision making **(10 marks)**
- Q5. a) State and explain factors affecting the present and future value of a company **(10 marks)**
- b) l) Suppose kentraco Co. were to issue a bond with 10 years to maturity. The Kentraco bond has an annual coupon of \$80. Similar bonds have a yield to maturity of 8 percent. In 10 years, kentraco will pay \$1,000 to the owner of the bond. Determine the value of the bond today. **(10arks)**

- ii) Suppose a year has gone by and the bond now has nine years to maturity. If the interest rate in the market has risen to 10 percent, what will the bond be worth? **(10 marks)**

**\*END\***