

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: PRINCIPLES OF INVESTMENT (IOBM-D208)**

**Date: Tuesday, 8th November 2016**

**Time Allocated: 3 hours (08:00 -11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 20 multiple choice questions, each question carries 2 marks. Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer sheets without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. Describe an investment portfolio and in your description include why professionals always ensure that it is well diversified*. (9 marks)*

1. Which **three** reasons would an investment manager give his client to invest in preference shares rather than in ordinary shares*? (6 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Calculate Net Capital Employed for AB Enterprise limited based on the following accounting information:

|  |  |
| --- | --- |
|  | **MK** |
| Furniture & Fittings | 10,000 |
| Plant & Machinery | 35,000 |
| Short term Investments | 12,000 |
| Stock | 25,000 |
| Cash at bank | 9,000 |
| Trade payables | 14,000 |
| Rentals payables | 5,000 |
| Fee payables | 7,000 |

*(5 marks)*

1. Explain **five** adjustments that ought to be made to net profit if return on capital employed is to be properly computed and give a true reflection of the company`s performance on capital. *(10 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Discuss secondary securities market and its two trading systems. *(7 marks)*
2. What **four** attributes are vital if secondary market is to be vibrant and well patronised by the investing public. *(8 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Distinguish risk of an investment from expected rate of return. *(2 marks)*
2. The investment portfolio consist of the following securities and their respective proportion:

|  |  |  |
| --- | --- | --- |
| **SECURITY** | **PROPORTION** | **BETA** |
| 10 year Government bond | 0.15 | - |
| Bank`s listed shares | 0.40 | 1.80 |
| Agri – business shares | 0.25 | 0.90 |
| Real estate | 0.20 | - |

1. Compute the portfolio`s expected return if the securities are likely to give the return of 14%,15%,15.50% and 18% respectively. *(5 marks)*
2. Calculate the required return for Banking and Agri-business shares given that their respective expected market returns are 18 % and 16 % respectively.

*(8 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. The following figures were extracted from financial Statement for A & N Holdings limited.

|  |  |
| --- | --- |
|  | **MK** |
| Stock | 19,000 |
| Cash at bank | 3,500 |
| Fixed deposits | 8,000 |
| Treasury bill investment | 4,000 |
| Tax payable | 2,500 |
| Local creditors | 3,000 |
| Foreign creditors | 6,000 |

**Required:**

Explain the term financial statement analysis and give any three methods used in doing the analysis *(5 marks)*

1. Based on the information above, calculate the following ratios:
2. Current ratio *(3 marks)*
3. Acid test ratio *(2 marks)*

1. In what way does dividend payout ratio and retained earnings ratio complement each other? *(4 marks)*

1. Give **three** reasons why current ratio is very unpopular and not commonly used among investors? *(6 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Give **three** conditions that a bond holder must satisfy if he has to achieve a return which is equal to yield-to-maturity. *(3 marks)*
2. A three year bond with face value of K 12,000,000 which was bought at a discount of K 11,650,000 is paying coupon at the rate of 8 % per annum.

**Required:**

Calculate the current yield. (*4 marks)*

1. Describe the **two** distinct characteristics of municipal bonds. *(13 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Explain how efficient market hypothesis model differ from behaviour finance model. *(8 marks)*
2. Compare top-down and bottom –up processes of company valuation in justify their rationale. *(12 marks)*

**(Total 20 Marks)**

**QUESTION 8**

1. The fund manager has two portfolios under his management as follows:

|  |  |  |
| --- | --- | --- |
| **Portfolio P** |  |  |
| **Security Type** | **Proportion (%)** | **Beta** |
| Fixed deposit | 14 | 1.55 |
| Treasury Bills | 26 | 0.95 |
| Shares | 40 | 1.30 |
| Corporate bond | 20 | 0.85 |
|  |  |  |
| **portfolio Q** |  |  |
| **Security Type** | **Proportion (%)** | **Beta** |
| Fixed deposit | 15 | 1.85 |
| Treasury Bills | 45 | 1.35 |
| Shares | 15 | 1.15 |
| Corporate bond | 25 | 0.75 |

**Required:**

With the aid of computations, state which of the two portfolios has a lower risk.

*(10 marks)*

1. Discuss the views of Arbitrage Pricing Model of pricing various Assets. *(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**