

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF EDUCATION ARTS

BUST 222: INVESTMENT

STREAM:

TIME: 2 HRS

DAY: THURSDAY [11.30-1.30 P.M]

DATE: 18/04/2024

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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Instructions: Answer Question ONE and any other TWO questions

QUESTION ONE

- (a) Explain two differences between traditional and alternative investments **(4 marks).**
- (b) Discuss three investment options suitable for small investors and savers **(6 marks).**
- (c) Explain two differences between preferred stocks and master limited partnerships **(4 marks).**
- (d) Define the following terms:
 - (i) Sinking fund **(2 marks).**
 - (ii) Annuities **(2 marks).**
- (e) Compare and contrast the Nairobi Stock Exchange (NSE) with one other major stock exchange of your choice, explaining two similarities, two differences, and two factors that contribute to the uniqueness of each exchange. **(12 marks).**

QUESTION TWO (20 marks)

- (a) Discuss five key concepts of investment risk **(10 marks).**
- (b) The following are financial statements for a given public company:

Income Statement:

Revenue: Shs. 5,000,000

Operating Expenses: Shs. 3,000,000

Balance Sheet:

Total Assets: Shs. 10,000,000 ((Non-current Shs. 6,000,000)

Total Liabilities: Shs. 4,000,000 (Non-current Shs. 1,000,000)

Calculate and interpret the following financial ratios.

- (i) Profit margin **(4 marks).**
- (ii) Return on equity (ROE) **(3 marks).**
- (iii) Current ratio **(3 marks).**

QUESTION THREE

- (a) Discuss five functions of stockbrokers in the financial markets **(10 marks).**



(b) Consider the following investment scenario for a bond:

Face Value of the Bond (FV):	Shs. 1,000
Annual Coupon Payment (CP):	Shs. 50
Current Market Price (P):	Shs. 950
Years to Maturity (n):	5
Call Price (CP):	Shs. 1,020
Years to Call (m):	3

Calculate

- (i) Current Yield (CY)
 - (ii) Yield to Maturity (YTM), and
 - (iii) Yield to Call (YTC). **(9 marks).**
- (c) Define the term “par value” **(1 mark)**

QUESTION FOUR

- (a) Explain six roles of the Nairobi Securities Exchange in capital formation **(12 marks).**
- (b) Explain four basic features of Kenyan government securities **(8 marks).**

