



The Co-operative University of Kenya

SUPPLEMENTARY / SPECIAL EXAMINATION AUGUST-2019

**EXAMINATION FOR THE DIPLOMA IN BANKING AND FINANCE /
ACCOUNTING & FINANCE**

UNIT CODE: DMMF 1102 / DMAF 1106

UNIT TITLE: INVESTMENT BANKING AND BROKERAGE

DATE: 30TH AUGUST, 2019

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) Explain FOUR advantages of an IPO to the company (4 Marks)
- (b) Describe FOUR types of bonds that can be issued by CBK (4 Marks)
- (c) Explain FOUR roles played by a stock broker in the financial markets (4 Marks)
- (d) Outline the THREE advantages of active investment strategy (3 Marks)
- (e) Differentiate between AIMS and GEMS market segments in NSE (4 Marks)
- (f) Explain FIVE sources of systematic risks in investments (5 Marks)
- (g) You have Kshs 2 Million which you wish to invest. Explain why you must invest in a fixed deposit and not a savings account in a commercial bank (6 Marks)

QUESTION TWO

- (a) You have the following investments:

Investment	Returns (%)	No. of shares
A	30	40,000
B	15	50,000
C	18	900,000
D	-9	200,000

Required:

- i. Calculate the arithmetic mean, geometric mean and weighted average returns of the four investments
- ii. Explain why the 3 averages are different (10 Marks)
- (b) Explain why you may invest in a Treasury bill rather than ordinary shares of a company (10 Marks)

QUESTION THREE

- (a) Describe FOUR methods that a company can use to list in NSE (10 Marks)
- (b) Explain FIVE advantages of investing in mutual funds (10 Marks)

QUESTION FOUR

- (a) The following data was extracted from Midas Company Limited, listed in NSE

	Kshs
Share capital (800,000 of Kshs. 10 each)	8,000,000
Earning (Net profit after tax)	4,200,000
Reserves	6,000,000
Net assets	3,500,000
Market price of shares	60

You have 10,000 shares in a company

- i. Calculate the P/E ratio
 - ii. Explain the factors that affect the P/E ration
 - iii. Calculate the NAV
 - iv. Calculate ROE
 - v. The company declares a rights issue at 1:4 at 80% discount on the market price which you wish to exercise:
 - a. How many shares will you have after the rights issue?
 - b. How much will you pay for the rights
 - c. What will be the effect of this on the share capital and reserves of the company? (12 Marks)
- (b) Explain the advantages of investing in property (8 Marks)

QUESTION FIVE

- (a) Explain the methods that a company can use to raise equity capital in NSE (10 Marks)
- (b) Describe a limit order in NSE trading and give its advantages (10 Marks)