PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY- APRIL 2026

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 304

COURSE TITLE: PORTFOLIO ANALYSIS

EXAM DATE:

QUESTION ONE (COMPULSORY) (30MARKS)

a. An investor can be distinguished from a speculator by risk bearing capacity, return expectations, and duration of trade. Explain. (7 marks)
b. Discuss your views regarding the current investment scenarios in the Kenyan market. (8 marks)
c. By use of illustrations, explain the difference between; application
   i) Systematic risk and unsystematic risk (5 Marks)
   ii) Capital market line and security market line (5 Marks)
d. Discuss **FIVE** strategies for managing debt securities by firms. (5 Marks)

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO (10) MARKS

A question from a different topic

a. Discuss the assumptions of Markowitz portfolio theory (5 marks)

b. Explain the Markowitz efficient frontier. (5 marks)

QUESTION THREE 10 MARKS

From the given data, evaluate the portfolios using

i. Sharpe model (4maks)
ii. Treynor model (3 marks)
iii. Jensen"s model. (3 marks)

	Portfolio A	Portfolio B	Portfolio C
Return	20%	25%	18%
Beta	1.5	1.6	1.4
Std. Deviation	5%	6%	4%

Market returns 12%

Risk free rate 7%

QUESTION FOUR **(10 MARKS)**

a. Discuss **five** different evaluation techniques used for measuring the performance of the portfolio. (5 marks)
b. Explain price risk and reinvestment risk under bond investment (5 marks)

QUESTION FIVE **(10 MARKS)**

a. Consider the following four portfolios

Portfolio	E(Rp) Expected Return	Standard Deviation
A	20	5
B	18	6
C	15	7
D	20	10

If the market return is 10% with a standard deviation of 4% and risk -free rate of 6%

Required:

Applying the capital market line equation which of the portfolio are efficient and those that are not (7 marks)

b. Using suitable examples, explain THREE limitations of the Capital Market Line (CML) (3 Marks)