KOD/NAMA KURSUS : EG3023: TEORI PELABURAN

TARIKH : 25 MAC 1997 (SELASA)

MASA : 2.30 - 5.00 PTG. (2 1/2 JAM)

TEMPAT : DEWAN MU'ADZAM SHAH

ARAHAN :
1. Kertas soalan ini mengandungi ENAM (6) soalan di dalam DUA (2) halaman bercetak.
2. Anda dikehendaki menjawab SEMUA soalan.
3. Semua jawapan hendaklah ditulis di dalam lembaran jawapan yang disediakan.

NO. MATRIK : ____________________________________________
(dengan perkataan)  (dengan angka)

NO. KAD PENGENALAN : ___________________________________

NAMA PENSYARAH : ________________________________________

KUMPULAN : __________________________

JANGAN BUKA SOALAN INI
SEHINGGA DIBERI ARAHAN

SULIT
1. i) Khawja Glassworks stock currently sells for RM36 per share. One year ago the stock sold for RM33. The company recently paid a RM3 per share dividend. What was the rate of return for an investor in Khawja stock over the last year? (8 marks)

ii) Explain why the rate of return on an investment represents the investor’s relative increase in wealth from that investment. (8 marks)

2. i) Describe the conflict of interest that typically exists in the investment advisory relationship between a brokerage firm and its clients. (8 marks)

ii) Distinguish between the initial margin requirement and the maintenance margin requirement. (8 marks)

3. Consider four stocks with the following expected returns and standard deviations.

<table>
<thead>
<tr>
<th>Stock</th>
<th>Expected Return</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>B</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>C</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>D</td>
<td>16</td>
<td>11</td>
</tr>
</tbody>
</table>

Are any of these stocks preferred over another by a risk-averse investor? (12 marks)

4. The market model specifies a very simple relationship between a security’s return and the return on the market index. Discuss some “real world” complexities that might diminish the predictive power of the market model. (14 marks)
5. i) ABC's portfolio is composed of an investment in a risky portfolio (with a 12% expected return and a 25% standard deviation) and a riskfree asset (with a 7% return). If ABC's total portfolio has a 20% standard deviation, what is its expected return?

(11 marks)

ii) Consider a risky portfolio with an expected return of 18%. With a riskfree return of 5%, how could you create a portfolio with a 24% expected return?

(11 marks)

6. i) The market portfolio is assumed to be composed of four securities. Their covariances with the market and their proportions are shown below:

<table>
<thead>
<tr>
<th>Security</th>
<th>Covariance with Market</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>242</td>
<td>.20</td>
</tr>
<tr>
<td>B</td>
<td>360</td>
<td>.30</td>
</tr>
<tr>
<td>C</td>
<td>155</td>
<td>.20</td>
</tr>
<tr>
<td>D</td>
<td>210</td>
<td>.30</td>
</tr>
</tbody>
</table>

Given this data, calculate the market portfolio's standard deviation.

(10 marks)

ii) Explain the significance of the Capital Market Line.

(10 marks)