



**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ECONOMICS**

**INVESTMENT ANALYSIS 1: EC207**

**DURATION: 3 HOURS**

**JUN 2024**

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**INSTRUCTIONS TO CANDIDATES**

1. This paper carries four **(4)** questions
2. Answer **ALL** questions
3. Each question carries **25 marks**
4. Show all your **workings** and **write legibly**
5. All rough work should be done inside the answer booklet

**Question 1**

- a) If a market is efficient, what are the implications of technical analysis, fundamental analysis, and insider trading? **[15 marks]**
- b) What modifications did Fama (1991) make in the discussion of market efficiency? **[10 marks]**

**Question 2**

Year	0	1	2	3	4	5
BUSE project for chickens	-100	30	30	30	30	30
BUSE project for piggery	-150	48	48	48	48	48

The opportunity cost rate is 7%.

- Find the Net Present Value (NPV) for each project. **[2 marks]**
- Find the Internal Rate of Return (IRR) for each project. **[4 mark]**
- Do the findings yield consistent recommendations on the choice between projects? **[2 marks]**
- Which project do you recommend? **[2 marks]**

Chilwell investments, a newly listed company on the Zimbabwe Stock Exchange, promises to pay a dividend of \$3 per share at the end of 2012. This translates to a dividend payout ratio of 35%, with the remaining funds being ploughed back in expansion activities that are expected to offer a return on equity of 10%. The market capitalization rate is 9%.

- Find the expected growth rate in dividends. **[2 marks]**
- What is the current value of Chilwell stock? **[3 marks]**
- What is the Present Value of Growth Opportunities (PVGO) for Chilwell investments? **[4 marks]**
- On the basis of the PVGO, would you advise shareholders to allow the firm to plough back the earnings into the firm? Explain. **[2 marks]**

**Question 3**

- a) Analyze a positively sloped yield curve in relation to the following aspects **[5 marks]**
- Risk.

ii. Expectations of future interest rates.

**[5 marks]**

b) During the final year of study at Bindura University of Science Education, a student collected data on bond yields for a period of ten years. The data revealed that although the maturity of the bonds was the same, differences in yields existed. How could such yield differentials be accounted for?

**[10 marks]**

**Question 4**

Critically discuss the role of Zimbabwe's financial system since the introduction of the multiple currency system.

**[25 marks]**

**END**