Third Semester MBA Degree Examination, June/July 2016
Investment Management

Time: 3 hrs.   Max. Marks:100

Note: Use of Present value tables is permitted.

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1   What do you mean by book-building?   (03 Marks)

2   What is the role of an underwriter in primary issue?   (03 Marks)

3   Primary and secondary markets are complementary, but their organizational structures are different. – Comment.   (03 Marks)

4   How is economic growth related to stock prices?   (03 Marks)

5   Distinguish between systematic and unsystematic risk.   (03 Marks)

6   How does constant rupee strategy differ from constant ratio strategy?   (03 Marks)

7   What is the value of a 12% ₹1000 face value bond redeemable after 8 years if the required rate is 17% and redeemed at premium of 10%.   (03 Marks)

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1   Briefly describe the steps involved in a public issue.   (07 Marks)

2   The return on two securities X and Y are given below. Select the security according to risk and return.

Return on Security X (%)	Return Security Y (%)	Probability
8	1	0.5
5	4	0.3
2	6	0.2

(07 Marks)

3   An investor has the following information of a bond:
Face value - ₹ 1000,   Coupon rate = 10% p.a.,   Time to maturity = 10 years,
Market price = ₹ 1250,   Callable in 5 years = ₹ 1200.
   i)   Find the yield to maturity (YTM)
   ii) and yield to call (YTC).   (07 Marks)

4   The current dividend on an equity share of ICL limited is ₹4. ICL is expected to enjoy an above normal growth rate of 18% for 6 years. Thereafter the growth rate will fall and stabilize at 12%. Equity investors require a return of 18% from ICL stock. What is the intrinsic value per share of ICL Limited?   (07 Marks)
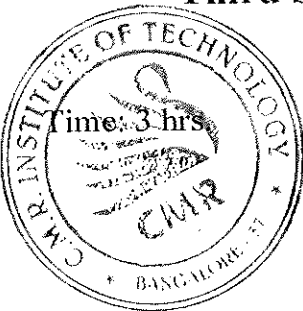
5   What are the economic factors influencing the analysis of equity stock? Discuss.   (07 Marks)

6   The following information is available:

	Stock A	Stock B
Expected return	16%	12%
Standard deviation	15%	8%

Coefficient of correlation = 0.60
i)   What is the covariance between stock A and B?
ii) What is the expected return and risk of a portfolio in which A and B have weights of 0.6 and
     0.4?   (07 Marks)

7   The XYZ Company manages a stock fund consisting of four stocks with the following market
    values and betas:

Stock	Market value	Beta
A	2,00,000	1.16
B	1,00,000	1.20
C	1,50,000	0.80
D	50,000	0.50

If the risk free-rate on interest is 9% and the market return is 15%, what is the portfolios
expected return?   (07 Marks)

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1   Differentiate between capital market and money market. Explain the money market instruments
    in detail.   (10 Marks)

2   The returns on the equity stock of Cares Ltd and the market portfolio over a 11 year period are
    given below.

Year	1	2	3	4	5	6	7	8	9	10	11
Return on Cares Ltd	15	-6	18	30	12	25	2	20	18	24	8
Return on market portfolio	12	1	14	24	16	30	-3	24	15	22	12

i)   Calculate the beta for the stock of Cares Ltd.
ii) Establish the characteristic line for the stock of Cares Ltd.   (10 Marks)

3   Describe the strategies for managing a bond portfolio.   (10 Marks)

4   Max Limited's earnings and dividends have been growing at a rate of 18% per annum. This
    growth rate is expected to continue for 4 years. After that the growth rate will fall to 12% for the
    next 4 years. Thereafter the growth rate is expected to be 6% forever. If the last dividend per
    share was ₹2 and the investor's required rate of return on max equity is 15%. What is the
    intrinsic value per share?   (10 Marks)

5   What is random walk theory? Explain the various forms of market efficiency.   (10 Marks)

6   Bonds A and B are similar except for the maturity period. Both the bonds carry 9% coupon rate
    with the face value of ₹ 10,000. The yield to maturity is 9%. If the yield to maturity rise to 11%,
    what will be the respective percentage change in bond A with 4 years to maturity and B with 5
    years to maturity?   (10 Marks)

7 The following three portfolios provide the particulars given below:

Portfolio	Avg return	Std deviation	Correlation coefficient market & portfolio
A	18	27	0.8
B	14	18	0.6
C	15	8	0.9
Market	13	12	-

Risk-free rate of interest is 9%.
  i) Rank these portfolios using Sharpe's and Treynor method.
  ii) Compare both the indices. (10 Marks)

SECTION - D
CASE STUDY – [Compulsory]

The stock of Alpha company performs well relative to other stocks during recessionary periods. The stock of Beta Company, does well during growth periods. Both the stocks are currently selling for ₹50 per share. The rupee return (dividend plus price change) of the stocks for the next year would be as follows:

Economic Condition

	High growth	Low growth	Stagnation	Recession
Probability	0.3	0.3	0.2	0.2
Return of alpha stock	55	50	60	70
Return of beta stock	75	65	50	40

Calculate the expected return and standard deviation of:
  i)   ₹1000 invested in the equity stock of alpha.
  ii) ₹1000 invested in the equity stock of beta.
  iii) ₹500 invested in the equity stock of alpha and in the equity stock of beta.
  iv) ₹700 invested in the equity stock of alpha and ₹300 in the equity stock of beta. (20 Marks)

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