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Third Semester MBA Degree Examination, Dec.2017/Jan.2018

Investment Management

Time: 3 hrs.

Max. Marks:80

- Note:** 1. Answer any **FOUR** full questions from Q.No.1 to Q.No.7.
 2. Question No. 8 is compulsory.
 3. Use of Present value tables is permitted.

- 1 a. What is the role of an underwriter in primary issue? (02 Marks)
 b. What are the attributes that an investor should consider while evaluating an investment? (06 Marks)
 c. Explain the methods of raising capital from primary market through equity. (08 Marks)
- 2 a. Differentiate between open-ended and closed-ended mutual funds. (02 Marks)
 b. Akash is considering the purchase of a bond currently selling at Rs.878.50. The bond has four years to maturity, with a face value of Rs.1000 and 8% coupon rate. The next annual interest payment is due after one year. The required rate of return is 10%.
 i) Calculate the present value of the bond. Should Akash buy the bond?
 ii) Calculate the yield to maturity of the bond. (06 Marks)
 c. Arun buys two bonds, namely bond A and bond B with 7% and 8% coupons having a maturity period of four years. The face value is Rs.1000. Both the bonds currently yield 6%. Calculate duration of the bond A and B. (08 Marks)

- 3 a. If a preferred stock's annual dividend is Rs.5 and the required return is 8%. What is the worth of preferred stock today? (02 Marks)
 b. The current dividend on an equity share of ABC Limited is Rs.3.00. ABC is expected to enjoy an above normal growth rate of 20% for a period of 6 years. Thereafter the growth rate will fall and stabilize at 10%. Equity investors require a return of 14%. What is the intrinsic value of the equity share of ABC Ltd.? (06 Marks)
 c. Calculate the 5 day EMA for the data given below:

Day	1	2	3	4	5	6	7	8	9	10
Closing price (Rs)	90	95	94	96	100	98	96	95	97	100

- 4 a. What is an efficient frontier? (02 Marks)
 b. A portfolio consists of 3 securities A, B and C. The proportions of these securities are: 30%, 50% and 20% respectively. The standard deviations of returns on these securities (in %) are 6, 9 and 10. The correlation coefficients among security returns are $\rho_{AB} = 0.4$, $\rho_{BC} = 0.7$ and $\rho_{AC} = 0.6$. What is the standard deviation of portfolio return? (06 Marks)
 c. The following information is available:

	Stock A	Stock B
Expected return	16%	12%
Standard deviation	5%	8%
Coefficient of correlation	0.6	

- i) What is the covariance between stocks 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? (08 Marks)

- 5 a. Distinguish between economic and financial investment. (02 Marks)
 b. Mr. Shankar is considering following investment alternatives. What should be the required rate of return for each of the following investments if return on the market is 12% and return on treasury bill is 6.5%.

Security	A	B	C	D	E
Beta	1.2	0.9	1.3	0.5	1.2

- c. Discuss the key industry factors that need to be studied in fundamental analysis. (06 Marks)
 (08 Marks)
 6 a. Mention the three levels of market efficiency. (02 Marks)
 b. Stocks A and B have the following parameters.

	Stock A	Stock B
Expected return	13%	18%
Standard deviation	25%	28%

- The correlation between A & B is 0.5. Determine the minimum risk portfolio. (06 Marks)
 c. Stocks x and y display the following returns over the past three years:

Year	Return	
	x	y
2014	10	16
2015	18	12
2016	08	14

- i) Find each stock expected return and standard deviation.
 ii) What is the expected return and risk of a portfolio made up of 40% in x and 60% in y? (08 Marks)
 7 a. What do you mean by portfolio revision? (02 Marks)
 b. Describe the key steps involved in portfolio management. (06 Marks)
 c. Consider the following information for three mutual funds P, Q and R and the market.

Mutual fund	Mean return (%)	Standard deviation (%)	Beta
P	15	20	0.9
Q	17	24	1.1
R	19	27	1.2
Market Index	16	20	1

The mean risk free rate was 10%. Calculate the Treynor measure, Sharpe measure and Jensen measure for the three mutual funds and market. (08 Marks)

- 8 Anand is considering the purchase of 3 securities A, B and C for the next year. The returns of the securities depend on next year's state of the stock market. The estimated rates of return are shown in the table.

State of market	Probability	Rates of Return		
		A (%)	B (%)	C (%)
Recession	0.25	10	9	14
Average	0.50	14	13	12
Boom	0.25	16	18	10

- i) Find each stock's expected rate of return. (04 Marks)
 ii) Determine the standard deviation of each stock. (04 Marks)
 iii) If Anand invest one third in each security, what would be his portfolio return and risk? (08 Marks)
