

CBCS SCHEME



18MBAFM302

Third Semester MBA Degree Examination, Aug./Sept.2020 Investment Management

Time: 3 hrs.

Max. Marks:100

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

- 1
 - a. Distinguish between Investment and Speculation. (03 Marks)
 - b. Explain the different money market instruments available in India. (07 Marks)
 - c. Discuss the process of investment. (10 Marks)
- 2
 - a. Write a note on S&P BSE SENSEX. (03 Marks)
 - b. Chandra purchased at par a bond with a face value of Rs. 1000. The bond had five years to maturity and a 10% coupon rate. The bond was called two years later for a price of Rs.1200 after making its second annual interest payment. Chandra then reinvested the proceeds in a bond selling at its face value of Rs. 1000 with three years to maturity and a 7% coupon rate. Determine the YTM of the bond. (07 Marks)
 - c. The following table gives data of 4 stocks.

Stock	Alpha	Systematic variance	Unsystematic variance
A	-0.06	5	4
B	0.10	2	6
C	0.00	3	1
D	-0.14	3	2

The market is expected to have a return of 12% with a variance of 6%. Calculate the expected return for a portfolio consisting of equal portion of stocks A, B, C and D.

(10 Marks)

- 3
 - a. X company's preference share is currently selling for Rs. 44 per share in the market and pays Rs.4.40 annual dividend. If an investor's required rate of return is 12%, what is the value of the preference share? Should the investor buy the preference share? (03 Marks)
 - b. Kanishka ltd. has a beta of 1.5. The risk free rate is 7% and the expected return on the market portfolio is 14%. The company presently pays a dividend of Rs.2.50 per share and investors expect a growth in dividend of 12% per annum for many years to come. Compute the required return in the equity according to CAPM. What is the present market price of the equity share assuming the computed return as required return? (07 Marks)
 - c. Following information is available in respect of securities and the market.

Security	Expected return (%)	Beta
A	22.20	1.75
B	15.80	1.90
C	18.00	1.10
D	9.00	0.95
E	25.80	2.00
T-Bill	8.00	-
SENSEX	15.00	1.00

- (i) Which of the securities are underpriced or overpriced in terms of security market line?
- (ii) What expected returns an investor would have if the investor forms an equally weighted portfolio of all the risky securities from A to E? Calculate the implied beta for the investor on such a portfolio. (10 Marks)

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- 4 a. Differentiate between CML and SML. (03 Marks)
 b. Explain Risk. Discuss the different types of risk. (07 Marks)
 c. Two bonds A and B have a par value of Rs.10,000 and YTM of 9%. Both mature after 4 years. A pays annual coupon of 10% and B pays 7.5% annual coupon. Calculate the duration and volatility of bonds A and B. (10 Marks)

- 5 a. List the modes of raising funds in the primary market. (03 Marks)
 b. Explain the utility of economic analysis and discuss the factors considered for economic analysis. (07 Marks)
 c. The following three portfolios provide the particulars given below :

Portfolio	Average annual return (%)	Standard deviation	Correlation coefficient
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%. Rank these portfolio using Sharpe and Treynor measures.

(10 Marks)

- 6 a. List the factors considered in industry analysis. (03 Marks)
 b. Explain the various forms of efficient market hypothesis. List the various tests of market efficiency. (07 Marks)
 c. A cement company paid a dividend of Rs.2.75 during the current year. Forecasts suggest that earnings and dividends of the company are likely to grow at the rate of 8% over the next five years and at the rate of 5% thereafter. Investor have traditionally required a rate of return of 20% on these shares. Determine the present value of the stock. (10 Marks)

- 7 a. List the basic tenets of Dow theory. (03 Marks)
 b. Explain the assumptions underlying Capital Asset Pricing Model. (07 Marks)
 c. An investor invests 30% of his funds in risk free asset and the remaining 70% of funds in an index fund that represents the market. The risk free return is 8%. The index fund is expected to give a return of 21%.
 (i) What is the expected return from the portfolio of the investor? The standard deviation of the index fund is 9.80. What is the standard deviation of the portfolio?
 (ii) If the investor withdraws his investment in the risk free security and invests the same also in the index fund, what is the expected return? What is the portfolio risk?
 (iii) If apart from investing his entire funds in the index fund, the investor borrows a sum equal to 20% of his available funds at the risk free rate of interest and invests the same also in the index fund, what is the expected return? What is the portfolio risk?
 (10 Marks)

8 Case Study (Compulsory) :

The stock of LG Ltd performs relatively well compared to other stocks during recessionary periods. The stock of Samsung Ltd on the other hand does well during growth periods. Both the stocks are currently selling for Rs. 100 per share. The financial analysts assessment of the rupee return (dividend plus price) of these stocks for the next year are as follows :

Economic Condition

	High Growth	Low Growth	Stagnation	Recession
Probability	0.3	0.40	0.20	0.10
Return of LG Ltd. (Rs.)	100	110	120	140
Return of Samsung (Rs.)	150	130	90	60

- a. Based on the above data, calculate the expected return and standard deviation of investing :
 (i) Rs.1000 in the equity stock of LG Ltd. (ii) Rs.1000 in the equity stock of Samsung Ltd.
 (iii) Rs.500 each in the equity stock of LG Ltd. and Samsung Ltd. (16 Marks)
- b. Which option you will prefer (out of i, ii, iii) on the basis of expected return and standard deviation of returns. (04 Marks)

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