CBCS SCHEME

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16/17MBAFM303

Third Semester MBA Degree Examination, Dec.2019/Jan.2020
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 P.V. tables is permitted.***

1 a. What is meant by private placement? **(02 Marks)**

b. Explain different modes of raising funds in the primary market. **(06 Marks)**

c. Discuss the key steps involved in the portfolio management process. **(08 Marks)**

2 a. Differentiate between open-ended and closed-ended mutual funds. **(02 Marks)**

b. A portfolio consists of 3 securities A, B and C. The proportions of these securities are $W_A = 0.3$, $W_B = 0.5$ and $W_3 = 0.2$. The standard deviations of returns on these securities (in percentage terms) are: $\sigma_A = 6$, $\sigma_B = 9$ and $\sigma_C = 10$. The correlation coefficients among security returns are $P_{AB} = 0.4$, $P_{AC} = 0.6$, $P_{BC} = 0.7$. What is the standard deviation of portfolio return? **(06 Marks)**

c. Consider the following information for three mutual funds A, B and C and the market index.

	Mean Return (%)	Standard Deviation (%)	Beta
A	12	18	1.1
B	10	15	0.9
C	13	20	1.2
Market Index	11	17	1

The mean risk-free rate was 6%, calculate the Treynor measure, Sharpe measure and Jensen measure for the three mutual funds and the market index. **(08 Marks)**

3 a. What do you mean by callable bonds? **(02 Marks)**

b. A Rs.100 par value bond bears a coupon rate of 14% and matures after 5 years. Interest is payable semi-annually. Compute the value of the bond if the required rate of return is 16%. **(06 Marks)**

c. What is meant by money market? Discuss briefly its instruments. **(08 Marks)**

4 a. What is an efficient market? **(02 Marks)**

b. What is meant by Behavioural Finance? Discuss the Biases of Behavioural Finance. **(06 Marks)**

c. Explain Markowitz efficiency frontier. Discuss how an investor selects the portfolio from the efficiency frontier. **(08 Marks)**

5 a. Mention any two assumptions of arbitrage pricing theory. **(02 Marks)**

b. Bharat 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 12% for the next 4 years. Thereafter, the growth rate is expected to be 6% forever. If the last dividend per share was Rs.2 and the investor's required rate of return on Bharat's equity is 15%. What is the Intrinsic Value per share? **(06 Marks)**

c. Calculate the 5 day Exponential moving average for the following data:

Day	1	2	3	4	5	6	7	8	9	10
Closing price	95	100	120	130	96	98	100	160	120	140

(08 Marks)

6 a. What do you mean by systematic risk? **(02 Marks)**

b. Explain the concept of Elliot wave theory. **(06 Marks)**

c. You are evaluating two bonds name BOX flexi bond and COX safety bond. Coupon rates of both the bonds 10% and 12%. Maturity period 5 years for both the bonds. Face value of both the bonds is Rs.1000. Current market price of BOX flexi bond is Rs.964 and COX safety bond is Rs.850. Yield to maturity rate or discount rate is 8% for both the bonds. You are required to calculate current yield and duration of the BOX and COX Bonds. **(08 Marks)**

7 a. What is meant by passive portfolio management strategy? **(02 Marks)**

b. The expected rates of return and the possibilities their occurrence for Alpha Company and Beta Company Scrips are given below:

Probability of Occurrence	Return on Alpha's Scrip (%)	Return on Beta Scrip (%)
0.05	-2	-3
0.20	9	6
0.50	12	11
0.20	15	14
0.05	26	19

(i) Find out the expected rates of return for Alpha and Beta scrips.

(ii) If an investor invests equally in both the scrips what would be the return.

(iii) If the proportion is changed to 25% and 75%; and 75% and 25%, what would be the return? **(06 Marks)**

c. Assume you are a portfolio manager, based on the following details, determine the securities that are overpriced and those that are underpriced in terms of the SML.

Security	Actual Return	β	σ (S.D)
A	0.55	1.8	0.50
B	0.26	1.5	0.35
C	0.15	1	0.40
D	0.21	0.90	0.24
E	0.13	0.70	0.28
F	0.14	1.2	0.18
G	0.10	0.3	0.33
Nifty index	0.18	1	0.20
T-bills	0.08	0	0.0

(08 Marks)

8 ***CASE STUDY:***

The stock of Tata Company performs well relative to other stocks during recessionary periods. The stock of Wipro company, on the other hand, does well during growth periods. Both the stocks are currently selling for Rs.50 per share. The rupee return (dividend plus price change) of these 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 on Tata stock	55	50	60	70
Return on Wipro stock	75	65	50	40

Calculate the expected return and standard deviation of :

(i) Rs.1000 invested in the equity stock of Tata company. **(04 Marks)**

(ii) Rs.1000 invested in the equity stock of Wipro company. **(04 Marks)**

(iii) Rs.500 invested in the equity stock of Tata and Rs.500 in Wipro company. **(04 Marks)**

(iv) Rs.700 invested in the equity stock of Tata and Rs.300 in Wipro company. **(04 Marks)**

Which of the above four options would you choose? Why?

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