18MBAFM302

Third Semester MBA Degree Examination, July/August 2022
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 time value table is permitted.

1	a.	What is gambling? How it is different from investment?	(03 Marks)
	b.	Explain the features of good investment.	(07 Marks)
	c.	Explain the different types of risks in investment.	(10 Marks)

2	a.	What do you mean by IPO? Explain.	(03 Marks)
	b.	"Bonds are risk free." – Do you agree with the statement? Explain.	(07 Marks)
	c.	What do you mean by efficient market? Explain the efficient market theory.	(10 Marks)

3 a. What do you mean by duration of the bond? Briefly explain.   (03 Marks)

   b. The returns on securities A and B are given below:

Probability	Security A	Security B
0.5	4	0
0.4	2	3
0.1	0	3

Give the security of your preference. The security has to be selected on the basis of risk and return.   (07 Marks)

   c. Prem is considering the purchase of a bond currently selling at Rs.878.50. The bond has four years to maturity, face value of Rs. 1000 and 8% coupon rate. The next annual interest payment is due after one year from today. The required rate of return is 10%.
   (i)   Calculate the intrinsic value of the bond, should Prem buy the bond?
   (ii) Calculate YTM of the bond.   (10 Marks)

4 a. What does Beta value '+1' indicate?   (03 Marks)

   b. Assume yourself as a portfolio manager and with the help of following details, find out the securities that are overpriced and underpriced in terms of SML.

Security	Expected Return	β (Beta)	σ
A	0.33	1.7	0.50
B	0.13	1.4	0.35
C	0.26	1.1	0.40
D	0.12	0.95	0.24
E	0.21	1.05	0.28
F	0.14	0.70	0.18
Nifty Index	0.13	1	0.20
T-Bills	0.09	0	0

(07 Marks)

   c. Calculate RSI from following data. Would you suggest the investor to buy the stock?

Day	1	2	3	4	5	6	7	8	9	10
Price	300	304	319	317	319	333	331	332	348	346

(10 Marks)

5 a. What do you mean by zero coupon bond? **(03 Marks)**

b. Stock Y and Z have the following parameters:

	Stock Y	Stock Z
Expected Return	20	30
Expected variance	16	25
Covariance YZ		20

Is there any advantage of holding the combination of Y and Z? **(07 Marks)**

c. From the following information related to '3' mutual funds, you are required to rank their performance based on Sharpe's and Treynor's index. $R_f = 9$

Portfolio	R_p	σ_p	D_p
Fund 1	25.38	4	0.23
Fund 2	25.11	9.01	0.56
Fund 3	25.01	3.55	0.59

(10 Marks)

6 a. What are formula plans? Briefly explain. **(03 Marks)**

b. What do you understand from Portfolio management strategies? Explain active and passive portfolio management strategy. **(07 Marks)**

c. Explain 'EIC framework' in fundamental analysis. **(10 Marks)**

7 a. What do you mean by New Issue market? Briefly explain. **(03 Marks)**

b. What do you understand from CAPM? Explain with assumptions of CAPM. **(07 Marks)**

c. Following data give the market return and sun company scrip's return for a particular period.

Scrip Return (R_i)	Index Return (R_m)
0.50	0.30
0.60	0.60
0.50	0.40
0.60	0.50
0.80	0.60
0.50	0.30
0.80	0.70
0.40	0.50
0.70	0.6

(i) What is the Beta value of sun company's scrip?

(ii) If the market return is 2, what would be the scrip return? **(10 Marks)**

8 <u>Case Study (Compulsory)</u> :

Stock L and M have yielded the following returns for the past two years.

Years	Return (%) - L	Return (%) - M
1995	12	14
1996	18	12

(i) What is the expected return on portfolio made up of 60% of L and 40% M?

(ii) Find out the standard deviation of each stock.

(iii) What is the covariance and 'r' between stock 'L' and stock 'M'?

(iv) What is the risk of the portfolio made up of 60% of 'L' and 40% of 'M'? **(20 Marks)**

* * * * *