CMR INSTITUTE OF TECHNOLOGY

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Internal Assesment Test - II

Sub:	Investment Management							Code:	20MBAFM303
Date	07/02/2023	Duration	90 mins	Max Marks:	50	Sem:	III	Branch	MBA

Part A: (Answer any 2 full questions)

		Marks	OBE CO	OBE RBT
1 (a)	What is one year holding period in share valuation?	[03]	CO2	L2

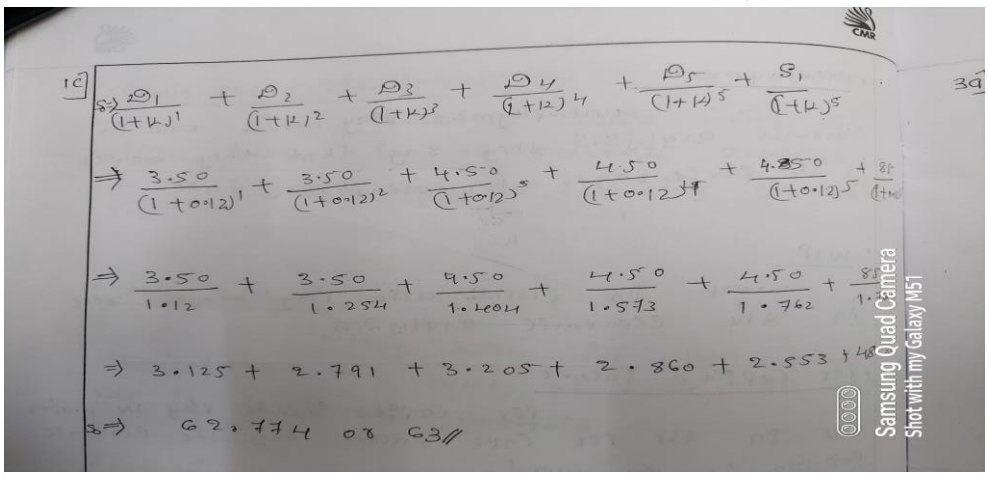
The holding period of equity shares can be both short term position and long term position; when the asset is in a holding period for less than 12 months, it is considered as the short-term holding asset, and if the asset is in holding period for more than 12 months, it is considered as a long-term holding asset.

(b)	Explain utility of economic analysis and discuss the factors considered for economic analysis?	[07]	CO2	L2

Economic factors include economic growth, percentage of unemployment, inflation, interest and exchange rates, and commodity (oil, steel, gold, etc) prices. These affect the discretionary income and purchasing power of households and organisations alike.

The economic factors that most affect the demand for consumer goods are employment, wages, prices/inflation, interest rates, and consumer confidence

(c)	You have decided to buy 500 shares of an IT company with the intention of selling out at the end of five years. You estimate that the company will pay Rs. 3.50 per share as dividends for the first two years and Rs. 4.50 per share for the next three years. You further estimate that, at the end of the five year holding period, the shares can be sold for Rs. 85. What would you be willing to pay today for these shares if your required rate of return is 12 per cent?	[10]	CO3	L3



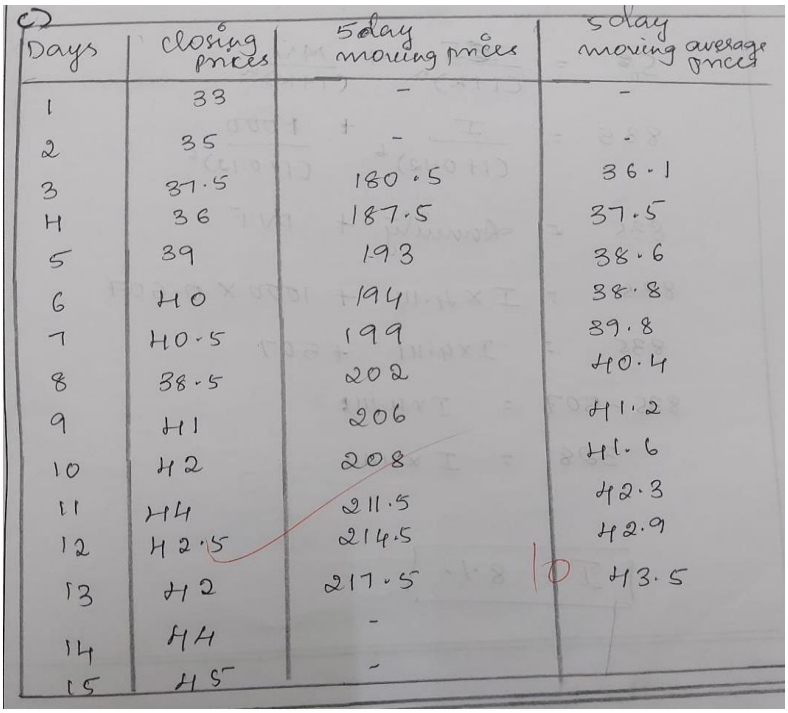
[03] CO2 L2

2(a) What is an efficient frontier?

Markowitz efficient frontier. The graphical depiction of the Markowitz efficient set of portfolios representing the boundary of the set of feasible portfolios that have the maximum return for a given level of risk.

(b)	List the basic tenets of Dow Theory? How is technical analysis different from fundamental analysis? Simply stated, volume should expand or increase in the direction of the major trend. In a major uptrend, volume would then increase as price move higher, and diminish as prices fall. In a downtrend, volume should increase as prices drop and diminish as they rally. Dow considered volume a secondary indicator. The Dow Theory is the foundation of technical analysis, and its principles are still very valid today. They can be applied in different asset classes and incorporated into different trading strategies. Open an account with AvaTrade and start trading the principles of the Dow Theory.	[07]	CO2	L2
(c)	Calculate the moving average methods for 5 days.	[10]	CO3	L3

Days	*Closing prices*
(1)	(2)
1	33
2	35
3	37.5
4	36
5	39
6	40
7	40.5
8	38.5
9	41
10	42
11	44
12	42.5
13	42
14	44
15	45



Days	closing prices	5day moving prices	5day moving average prices
1	33	-	-
2	35	-	-
3	37.5	180.5	36.1
4	36	187.5	37.5
5	39	193	38.6
6	40	194	38.8
7	40.5	199	39.8
8	38.5	202	40.4
9	41	206	41.2
10	42	208	41.6
11	44	211.5	42.3
12	42.5	214.5	42.9
13	42	217.5	43.5
14	44	-	
15	45	-	

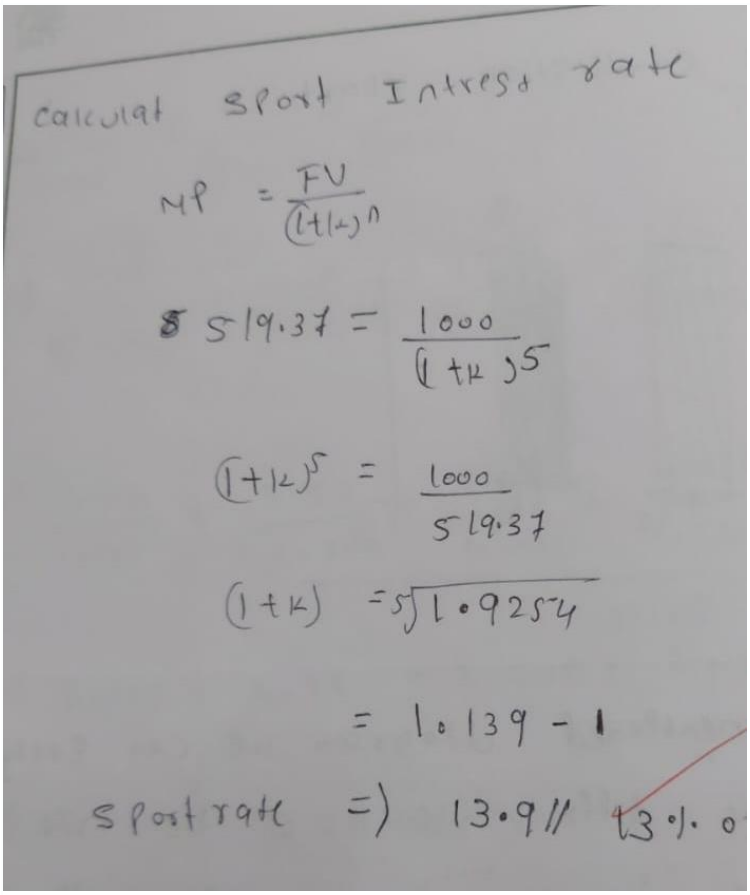
3 (a)	Explain the candlestick chart.	[03]	CO2	L1

A candlestick chart is a financial chart that typically shows price movements of currency, securities, or derivatives. It looks like a candlestick with a vertical rectangle and a wick at the top and bottom. The top and bottom of the candlestick show open and closed prices.

(b) Calculate the spot interest rate. [07] CO2 L3

To understand the calculation of spot interest rate, let us take another example. Consider a zero coupon bond whose face value is Rs. 1000 and maturity period is five years. If the issue price of the bond is Rs. 519.37, the spot interest rate can be calculated as shown

[10] CO2 L2



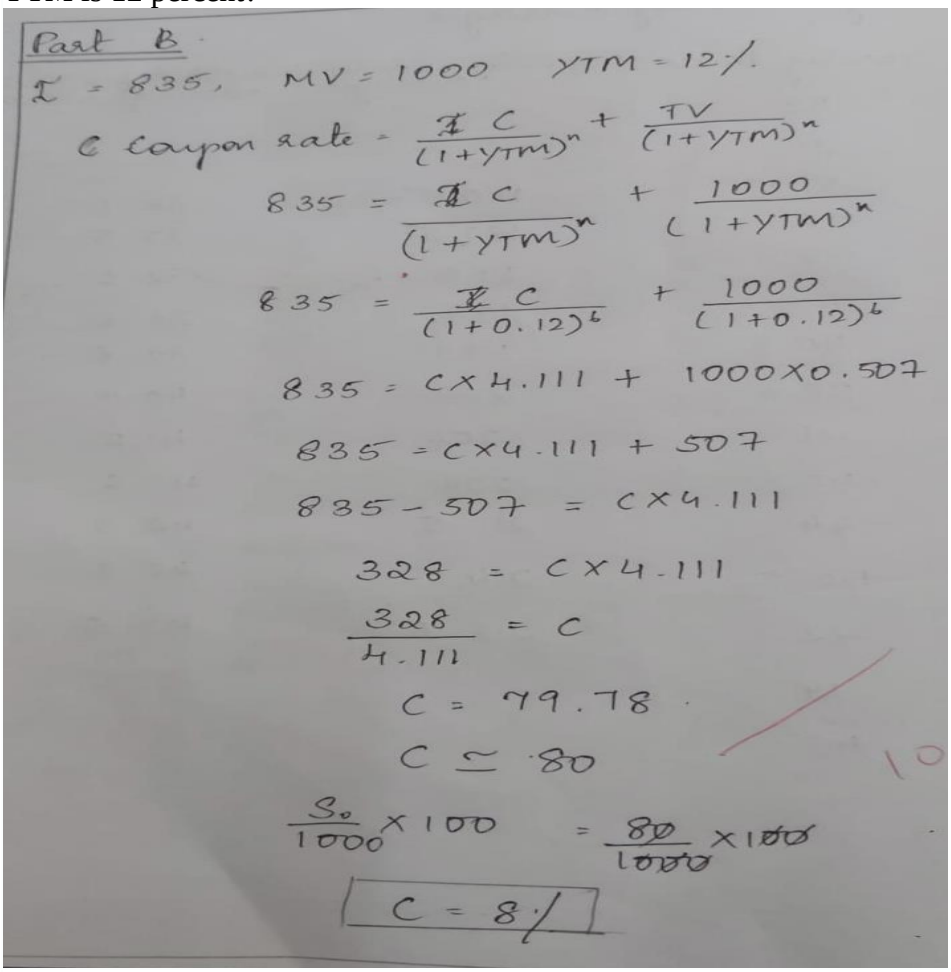
(c) Explain the various levels of information and the forms of markets according to efficient market hypothesis (EMH)?

The efficient market hypothesis (EMH) or theory states that share prices reflect all information. The EMH hypothesizes that stocks trade at their fair market value on exchanges. Proponents of EMH posit that investors benefit from investing in a low-cost, passive portfolio.

Though the efficient market hypothesis theorizes the market is generally efficient, the theory is offered in three different versions: weak, semi-strong, and strong.

Part B (Mandatory 10 marks)

4	A bond pays interest annually and sells for Rs. 835. I has six years left to maturity and a par value of Rs. 1000. What is its coupon rate if it's promised YTM is 12 percent?	C03	L3



Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

Course Outcomes		Blooms Level	Modules covered	PO1	PO2	PO3	PO4	PO5
CO1	The student will understand the capital market and various Instruments for Investment.	**1,2**						
CO2	The learner will be able to assess the risk and return associated with investments and methods to value	**3,4**	**2,3**	1a,1b ,2a,2				

	securities.			b,3a, 3b,3c ,				
CO3	The student will be able to analyses the Economy, Industry and Company framework for Investment Management.	**5**	**4,5**	1c,2c				4
CO4	The student will learn the theories of Portfolio management and also the tools and techniques for efficient portfolio management.	**5,6**	**6**					

CI **CCI** **HOD**