Internal Assesment Test - III

Sub:	Investment Management						Code:	20MBAFM303	
Date	13/03/2023	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 portfolio revision?	[03]	CO4	L2
(b)	Explain the single index model proposed by William Sharpe.	[07]	CO4	L2
(c)	Calculate the treynor ratio on portfolio evaluation.	[10]	CO4	L3

An investor owns a portfolio that over the last five years has produced 16.8 per cent annual return. During that time the portfolio produced a 1.10 beta. Further, the risk free return and the market return averaged 7.4 per cent and 15.2 per cent per year respectively. How would you evaluate the performance of the portfolio?

		Marks	CO	RBT
2(a)	Define the Markowitz model of portfolio.	[03]	CO4	L2
(b)	Explain the assumptions underlying Capital Pricing Model (CAPM).	[07]	CO3	L2
(c)	Calculate the Markowitz portfolio variance and standard deviation.	[10]	CO3	L3

Let us take an example to understand the calculation of portfolio variance and portfolio standard deviation. Two securities P and Q generate the following sets of expected returns, standard deviations and correlation coefficient:

$$P \qquad\qquad Q$$
$$\bar{r} = 15 \text{ per cent} \qquad 20 \text{ per cent}$$
$$\sigma = 50 \text{ per cent} \qquad 30 \text{ per cent}$$
$$r_{pq} = -0.60$$

A portfolio is constructed with 40 per cent of funds invested in P and the remaining 60 per cent of funds in Q.

		Marks	CO	RBT
3 (a)	Mention the formula for Basic Jensen's Performance index.	[03]	CO4	L1
(b)	Explain APT Model and its Assumptions.	[07]	CO3	L2
(c)	Explain the active and passive portfolio strategies.	[10]	CO4	L2

Part B (Mandatory 10 marks)

			CO	RBT
4	Calculate the CAPM and Define the Overpriced and Underpriced		C03	L3

The estimated rates of return, beta coefficients and standard deviations of some securities are as given below:

Security	Estimated return (per cent)	Beta	Standard deviation (per cent)
A	35	1.60	50
B	28	1.40	40
C	21	1.10	30
D	18	0.90	25
E	15	0.75	20
F	12	0.60	18

The risk free rate of return is 8 per cent. The market return is expected to be 20 per cent.

Determine which of the above securities are overpriced and which are underpriced?

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

CI   **CCI**   **HOD**