CBCS SCHEME

USN | | | | | | | | | | **18MBAFM302**

Third Semester MBA Degree Examination, Feb./Mar. 2022
Investment Management

Time: 3 hrs.   Max. Marks:100

Note: *1. Answer any FOUR full questions from Q1 to Q7.*
2. Question No.8 is compulsory.
3. PV tables to be provided.

1   a. Distinguish between economic and financial investment.   **(03 Marks)**
    b. List the feature of a good investment.   **(07 Marks)**
    c. Discuss the different types of money market instruments.   **(10 Marks)**

2   a. Explain Nifty Next 50.   **(03 Marks)**
    b. Explain the different modes of raising funds in the primary market.   **(07 Marks)**
    c. Explain the utility of economy analysis and discuss the factors considered for this analysis.
                                                                                  (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 a preference share for the investor? Should the investor acquire the preference shares?
                                                                                  (03 Marks)

    b. Consider the following information :
       Face value of the bond   : Rs.1000
       Interest rate   : 10%
       Years to maturity   : 5
       Redemption value   : Rs. 1000
       Yield to maturity   : 9%
       Calculate the duration of bond.   **(07 Marks)**

    c. Ram Ltd 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. Investors have traditionally required a rate of return of 20% on these shares. Determine the present value of stock.   **(10 Marks)**

4   a. List the basic tenets of Dow theory.   **(03 Marks)**
    b. Calculate 9 day Rs.1 for the following data :   **(07 Marks)**

Data	Feb 4	6	7	8	11	12	13	14	18	19
Price (Rs.)	300	304	319	317	319	333	331	332	348	346

    c. Explain Markowitz model and Markowitz efficient frontier.   **(10 Marks)**

5   a. Explain book building.   **(03 Marks)**
    b. Discuss the different forms of market efficiency. What are the different tests of market efficiency?   **(07 Marks)**
    c. Following information is available in respect of 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

    Which of the securities are under priced or over period interms of security market line?
                                                                                  (10 Marks)

6   a.   Differentiate between CML and SML.   **(03 Marks)**

     b.   Baraka 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 investor expect a growth in dividend of 12% per annum for many years to come. Compute the required rate of return on the equity according to CAPM. What is the present market price of the equity share assuming the computed return as required retrun?   **(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%.
       i)   Rank thee portfolios using Sharpe and Treynor method
       ii) Compare both the indices.   **(10 Marks)**

7   a.   Explain active portfolio management strategy.   **(03 Marks)**

     b.   Explain the various types of risk.   **(07 Marks)**

     c.   Kamalaksha has a portfolio of 3 shares, ABC. The following details relate to these shares. You are required to calculate the expected rate of return and standard deviation of the portfolio.

Share	Proportion in the portfolio	Standard deviation	Expected rate of returns
A	40%	8	16%
B	25%	12	22%
C	35%	6	12%

     Correlation coefficients :
     A and B : 0.74
     B and C : 0.46
     A and C : 0.82.   **(10 Marks)**

8   Case Study :
     Stocks 'A' and 'B' have the following details for the past 3 years.

Year	Returns (%)	
	A	B
2017	14	12
2018	16	18
2019	20	15

     a.   What is the expected return on portfolio made up of 40% of A and 60% of B?   **(05 Marks)**

     b.   What is the standard deviation of each stock?   **(05 Marks)**

     c.   What is the portfolio risk of a portfolio made up of 40% 'A' and 60% B?   **(10 Marks)**

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