CBCS SCHEME

USN | | | | | | | | | | | **20MBAFM303**

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 do you mean by FPO? Explain.   **(03 Marks)**
    b. Calculate Expected Return, Standard Deviation and Variance from the following data:

Probability	Return
10%	- 4%
30%	0
40%	15%
20%	20%

                                                                       (07 Marks)
    c. What do you understand from 'New issue market'? Explain its functions.   **(10 Marks)**

2   a. "Investment is different from Gambling." Justify.   **(03 Marks)**
    b. Differentiate Investment from Speculation.   **(07 Marks)**
    c. The returns in percentage on security A and security B are given below:

Probability	Security A	Security B
0.50	4	0
0.40	2	3
0.10	0	3

Give the security of your preference. Security has to be selected on the basis of Risk and Return.   **(10 Marks)**

3   a. What do you understand from P/E ratio? Explain.   **(03 Marks)**
    b. "Stocks are risky but bonds are not." Write your agreement or disagreements with reasons.
                                                                       (07 Marks)
    c. Calculate RST from the following data:

Day	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Closing Price	130	132	130	135	137	134	136	140	140	142	139	141	145	143	145

                                                                       (10 Marks)

4   a. What is working capital ratio? How do you calculate it?   **(03 Marks)**
    b. Calculate 5-day EMA from the following data:

Day	1	2	3	4	5	6	7	8	9	10
Closing Price (CP)	33	35	37.5	36	39	40	40.5	38.5	41	42

                                                                       (07 Marks)
    c. Arun buys a bond with '4' years to maturity. The bond has a coupon rate of 9%, the discount rate applicable is also 9%, the discount rate applicable is also 9%, and it is priced at Rs. 100 in the market.
    (i) What is the duration of the bond?
    (ii) What will be the percentage change in the price of the bond, if the interest rate raises by 1%?   **(10 Marks)**

5   a.   What do you mean by a 'defensive stock'?   **(03 Marks)**

     b.   A chemical company paid a dividend of Rs.2.75 during the current year. Forecast suggests that earnings and dividends of the company are likely to grow at the rate of 8% over the next 5 years and at the rate of 5% thereafter. Investors have traditionally expected a rate of return of 20% on these shares. What is the present value of the stock?   **(07 Marks)**

     c.   Briefly explain the 'EIC framework' in fundamental analysis.   **(10 Marks)**

6   a.   What does beta value '1' of a security indicate?   **(03 Marks)**

     b.   What do you mean by portfolio in investment? Explain the two portfolio management strategies.   **(07 Marks)**

     c.   Estimate the stock return using CAPM and the arbitrage model. The particulars are given below:

       (i)   Expected return of the market is 15% and equity's beta is 1.2. The risk free rate of return is 8%.

       (ii)

Factor	Market Price of Risk	Sensitivity Index
Inflation	6	1.1
Industrial Production	2	0.8
Risk Premium	3	1.0
Interest rate	4	- 0.9

     What explanation you can offer for the differences in the two estimates?   **(10 Marks)**

7   a.   "Market Beta is always '1'." Justify.   **(03 Marks)**

     b.   What do you mean by market efficiency? What are its three forms? Explain.   **(07 Marks)**

     c.   The following are the particulars relating to three portfolios:

Portfolio	Average Annual Return (%)	Standard Deviation	Correlation Co-efficient
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) Rate these portfolios using Sharpe's and Treynor models   (ii) Compare both the items.

                                            (10 Marks)

8   Case Study (Compulsory) :

     a.   Assume you are a portfolio manager. Based on the following details determine the securities that are overpriced and under-priced interms of SML.

Security	Actual Return	Beta	Std. Deviation
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	1.00	0.20
T. Bills	0.09	0	0

                                            (10 Marks)

     b.   Jaya Ltd. has a 14% debenture with a face value of Rs.100 that matures at par in 15 years. The debenture is callable in 5 years at Rs. 114. It currently sells for Rs.105. Calculate,

     (i) Current yield   (ii) Yield to call   (iii) Yield to maturity   **(10 Marks)**

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