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Third Semester MBA Degree Examination, Dec.2013/Jan.2014

Investment Management

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any THREE full questions from Q.No.1 to Q.No.6.

2. Q.No.7 and Q.No.8 are compulsory.

- 1 a. Distinguish between economic and financial investment. (03 Marks)
 b. Describe the features of a good investment. (07 Marks)
 c. Discuss the different types of money market instruments. (10 Marks)
- 2 a. What is a green shoe option? (03 Marks)
 b. State the functions of a stock market index. Discuss the different methodologies for calculating the stock market index. (07 Marks)
 c. Explain the different modes of raising funds in the primary market. (10 Marks)
- 3 a. List the major players in the secondary markets. (03 Marks)
 b. Define risk. Explain different types of risk. (07 Marks)
 c. You have gathered the stock prices as at the end of each year on March 31 for a firm called All Weather Ltd. For the last six years the price data is as given below:

Year	2002	2003	2004	2005	2006	2007
Stock price (Rs.)	130	142	169	154	189	210

Find out the following:

- i) The expected return of the stock.
 ii) The risk as measured by variance and standard deviation. (10 Marks)
- 4 a. Z 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 that investor? Should the investor acquire the preference shares? (03 Marks)
 b. Explain the different bond portfolio management strategies. (07 Marks)
 c. Pioneer constructions Ltd. has been in the business of constructing residential flats. It has been doing considerably well and constantly growing at 10% annually for the past several years. The last dividend paid by the company was Rs.3 per share. Due to its reputation, the firm received an overseas contract that would add to the growth and the prospect of the firm. The managing director confirmed to some investors that for the next three years the company would grow at double the rate at 20% rather than at usual 10%. The investor's required rate of return is 25%.
 i) What should be the current price of the share assuming constant growth?
 ii) Assuming that the firm would grow at 20% for next three years before reverting to normal growth of 10%, calculate the share price. (10 Marks)
- 5 a. J.P. Lights is a company engaged in the manufacture of electric bulbs. As on 31st March the shareholders funds position of the company is as under:
 4,55,000 equity shares of face value of Rs.10 = Rs.45.50 lakhs
 95,000 preference shares of face value of Rs.10 = Rs.9.50 lakhs
 Reserves = Rs.60 lakhs
 Preference dividend payable is 20% of face value.
 Profit after tax before preference dividend = Rs.58 lakhs
 Market price of equity share as on 31st March = Rs.114.
 Find the P/E ratio. (03 Marks)

- 5 b. Discuss the factors to be considered in industry analysis. (07 Marks)
 c. Following are the rate of returns on stock A and the market index for a five year period.

Year	Return on stock A	Return on market
1	0.44	-0.15
2	0.47	0.36
3	0.15	0.17
4	0.09	-0.12
5	-0.10	0.05

- i) Calculate the beta of stock A.
 ii) Compute the total risk for stock A and decompose the total risk into systematic and unsystematic components. (10 Marks)
- 6 a. What is behavioural finance? (03 Marks)
 b. Explain the different forms of market efficiency. What are the empirical tests for different forms of market efficiency? (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 these portfolios using Sharpe and Treynor methods.
 ii) Compare both the indices. (10 Marks)
- 7 a. Identify the risks associated with the following:
 i) Rise in the consumer price index
 ii) Lock out
 iii) Association of a political leader
 iv) Announcement of the decline in bank rate
 v) Announcement of the decline in bank rate
 vi) Fall in the value of currency. (05 Marks)
- b. Mr. Ramaswamy is a 52 year old government employee. He has plans to invest around Rs.4 lakh in a safe avenue. He also plans to invest Rs.10,000 per month in mutual funds through the SIP route.
 Could you please guide Mr. Ramaswamy to safe and guaranteed ventures so that he can spend his retired life with financial security? (05 Marks)
- c. Mr. Mohan is 23 years old. The only investments he has been able to do so far were for tax saving purposes. He is currently investing in a LIC policy with a premium of Rs.36000 annually and also some money in the PPF.
 He is looking for other investment options with good returns in 5 to 10 years time. He can invest Rs.50,000 per month. Kindly suggest different options. (05 Marks)
- d. Consider the chart given in Fig.Q7(d).

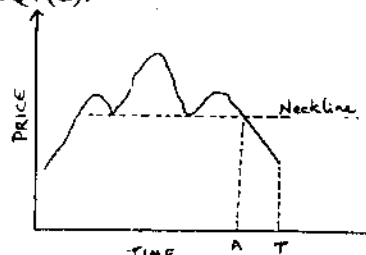


Fig.Q7(d)

Arrive at a decision as to whether the stock can be bought or sold at time period 'T'. (05 Marks)

8 Case study:

An investor invests 30% of his funds in risk free asset and the remaining 70% of funds in an index fund that represents the market. The risk free return is 8%. The index fund is expected to give a return of 21%.

- a. What is the expected return from the portfolio of the investor? The standard deviation of returns from the index fund is 9.80. What is the standard deviation of the portfolio return? **(04 Marks)**
- b. If the investor withdraws his investment in the risk free security and invests the same also in the index fund, what is the expected return? What is the portfolio risk? **(04 Marks)**
- c. If apart from investing his entire funds in the index fund, the investor borrows a sum equal to 20% of his available funds at risk free rate of interest and invests the same also in the index fund, what is the expected return? What is the portfolio risk? **(06 Marks)**
- d. List the assumptions of capital asset pricing model. **(06 Marks)**

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