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14MBAFM303

Third Semester MBA Degree Examination, Dec.2017/Jan.2018

Investment Management

Time: 3 hrs.

Max. Marks:100

Note: Use of Present/Future value table is permitted.

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 What are the objectives of investment? (03 Marks)
- 2 What is book building? (03 Marks)
- 3 Explain the importance of Beta in investment decisions. (03 Marks)
- 4 What is the relationship between bond price and yield to maturity? (03 Marks)
- 5 What is meant by Security Market Line (SML)? (03 Marks)
- 6 What is a mutual fund? (03 Marks)
- 7 Bring out the differences between fundamental and technical analysis. (03 Marks)

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 What is investment? How is it different from speculation? (07 Marks)
- 2 What are the functions of stock exchange? (07 Marks)
- 3 Anup wants to purchase the stock of company A and company B. He estimates the returns and probabilities. With the given details, find out the expected return for both company shares.

Returns		Probability
A	B	
8%	-2%	0.15
10%	6%	0.20
12%	10%	0.30
13%	15%	0.20
14%	20%	0.15

- 4 Anand owns Rs.1000 face value bond with 5 years to maturity. The bond has an annual coupon of Rs.75. The bond is currently priced at Rs.970. Given an approximate discount rate of 10%. Should Anand hold or sell the bond? (07 Marks)
- 5 Discuss the different trends given in the Dow theory. (07 Marks)

- 6 A financial analyst is analyzing 2 investment alternatives, stocks Z and X. The estimated rates of return and their chances of occurrence for the next year are given below:

Probability	Rate of Return	
	Stock X	Stock Z
0.20	22	5
0.60	14	15
0.20	-4	25

- i) Determine the expected rates of return, variance and standard deviations of X and Z.
 ii) If the financial analyst wishes to invest half in Z and another half in X, would it reduce the risk? Why? (07 Marks)
- 7 List the assumptions of capital Asset Pricing Model. (07 Marks)

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 What are the methods of floating new issues? Explain in detail. (10 Marks)
- 2 Given below are the returns on stock A and the market index for a 5 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	0.15

Calculate the beta for stock A. (10 Marks)

- 3 Using the CAPM, estimate the approximate required rate of return for the 3 stocks, given the information that market index is expected to have a return of 0.20 and a variance of 0.20 (σ_{ei}^2 is residual variance).

If a portfolio is created, by using all the 3 stocks in equal proportion, what will be the portfolio risk and return?

Stock	α	β	σ_{ei}^2
Bovine	0.07	1.52	0.19
Arvindo	0.09	0.81	0.06
Zeta	-0.02	1.41	0.15

- (10 Marks)
- 4 In 2015, ABC company's previous 5 year growth rate was 19.6% and analysts were forecasting a 13.2% long term growth rate. Suppose ABC grows at 19.6% for another 5 years and thereafter grows at 13.2% what value would you place on ABC company by assuming 14% discount rate. ABC's 2015 dividend was Re.0.92. Estimate the stock price according to 2-stage model. (10 Marks)
- 5 Describe the key economic variables than an investor must monitor as part of the fundamental analysis. (10 Marks)

- 6 What is Efficient Market hypothesis? What does it project in its weak-form and semi-strong form? (10 Marks)
- 7 Consider the following data on Bond A which is currently one of the most actively traded bonds:

Bond A	
Face value	Rs.100
Coupon (interest rate)	15% P.A
Years to maturity	6 years
Redemption rate	Rs.100
Yield to maturity	18%

What is the duration of Bond A? Calculate the modified duration. (10 Marks)

SECTION - D

CASE STUDY – [Compulsory]

Following information is provided regarding the performance of Blue-Chip fund, Leading Sector fund and Contra fund for a period of last 6 months. Risk free rate of interest is assumed to be 5%. Rank the funds with the help of:

- a) Sharpe Index and discuss. (05 Marks)
- b) Treynor's index and discuss. (05 Marks)
- c) Distinguish between open-end and closed-end mutual funds. (05 Marks)
- d) Give a brief explanation of NSE NIFTY. (05 Marks)

	R_p	σ_p	β
Blue chip	25.38	4	0.23
Leading sector	25.11	9.01	0.56
Contra	25.01	3.55	0.59

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