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Third Semester MBA Degree Examination, Dec.2015/Jan.2016
Investment Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE full questions from Q.No.1 to Q.No.6.***
2. ***Question No. 7 and 8 are compulsory.***
3. ***Use of PV tables is permitted.***

1 a. What is a zero coupon Bond? **(03 Marks)**
b. Differentiate between speculator and investor. **(07 Marks)**
c. Discuss various types of mutual fund. **(10 Marks)**

2 a. What are unsystematic disk? Give example. **(03 Marks)**
b. Consider a 10 years 11% pa coupon bond with par value of ₹1000/-, on which interest rate is payable semi-annually. The required rate of return is 12% pa. The present market price of bond is ₹857/-.
i) Calculate bond price.
ii) Should investor buy it? **(07 Marks)**
c. Discuss various macro economic factors that are considered for economic analysis of stock market. **(10 Marks)**

3 a. What is an efficient portfolio? **(03 Marks)**
b. What is an efficient market? Discuss the three levels of market efficiency? **(07 Marks)**
c. The following table gives an analyst expected return on two stocks for particular market returns:

Market return	Aggressive stock	Defensive stock
6%	4%	8%
24%	35%	16%

i) What are the beta of the two stocks?
ii) What is the expected return of an each stock if market return is equally likely to be 6% or 24%?
iii) If risk free rate of return is 8% and the market return is equally likely to be 6% or 24%. What is SML?
iv) What are alpha of two stocks? **(10 Marks)**

4 a. What is derivatives? Mention types of derivatives. **(03 Marks)**
b. Consider two stocks M & N:

Particulars	Expected Return	Std. dev.
M	16%	25%
N	18%	40%

The returns of the two stocks are perfectly correlated, what is the expected return of a portfolio constructed to drive the std. dev. of portfolio return to zero. (Perfectly negatively correlated). **(07 Marks)**
c. Consider the following information for a mutual fund (M) and the market:

Particulars	Mean return	Std. dev.	Beta
M	18%	30%	1.2
Market	13%	22%	1.0

The mean risk free return is 8% calculate
i) Sharpe's measure for M.
ii) Treynor's measure for M.
iii) Jenson's measure for M. **(10 Marks)**

5 a. What are the features of point and figure chart? **(03 Marks)**

b. The current dividend on an equity share of ABEX Ltd. is ₹7/-. ABEX is expected to enjoy above normal growth of 30% for 5 years. There after growth rate will fall to 10%. Equity investor expected return is 15% from ABEX stock. What is intrinsic value of share? **(07 Marks)**

c. What are the steps in portfolio management process? Explain in detail. **(10 Marks)**

6 a. What are assumptions of Markowitz model? **(03 Marks)**

b. i) Calculate RSI from following information for K Ltd.

Date	8	9	10	11	12	15
Price	386	424	404	392	415	450

ii) What is breath of the market? **(07 Marks)**

c. Define Bond risk. What are the types of risk involved with bonds? Explain. **(10 Marks)**

7 a. What does beta > 1 indicate? Explain with an example. **(05 Marks)**

b. Prove that if you invest 50% of your asset in each of two available. Stock and co-efficient of correlation is $+\frac{1}{2}$, then portfolio variance will be,

$$\sigma_P^2 = \frac{\sigma_1^2 + \sigma_2^2 + \sigma_1\sigma_2}{4}$$ **(05 Marks)**

c. Assume your self as a portfolio manager. With the help of given information, find out

i) Securities one over priced or under priced in terms of SML.

ii) What strategies should you take for given securities? (buy or sell).

iii) If inflation rate increases by 5%, is your decision of buy and sell will remain same for all securities?

Security	Expected return	β	σ
A	0.33	1.7	0.5
B	0.13	1.4	0.35
C	0.26	1.1	0.40

T-bill interest rate is 8% and Nifty return is 13%. **(10 Marks)**

8 You are evaluating an investment in two companies whose past 10 years of return are as follows:

Companies	1	2	3	4	5	6	7	8	9	10
A	37	24	-7	6	18	32	-5	21	18	6
B	32	29	-12	1	15	30	0	18	27	10

i) Calculate standard deviation of each company. **(06 Marks)**

ii) Calculate the correlative co-efficient of the company. **(06 Marks)**

iii) If you have placed 50% of your money in each stock, what would be average return and std. dev. of portfolio. **(08 Marks)**

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