USN | | | | | | | | | | |

14MBAFM303

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

Time: 3 hrs. Max. Marks: 100

SECTION – A

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

1 Distinguish between investment and speculation. **(03 Marks)**

2 What is book building? **(03 Marks)**

3 What is meant by Beta of a stock? **(03 Marks)**

4 What is bond indenture? **(03 Marks)**

5 What is RSI? **(03 Marks)**

6 What is meant by Markowitz efficient frontier? **(03 Marks)**

7 What is NAV? **(03 Marks)**

SECTION – B

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

1 Explain the attributes that one should consider while evaluating an investment. **(07 Marks)**

2 Explain the three important ways in which a company may raise equity capital in the primary market. **(07 Marks)**

3 "Unsystematic risk can be minimized, systematic risk can be managed" – Do you agree? How? **(07 Marks)**

4 The current dividend on an equity share of Pioneer Technology is ₹ 3.00. Pioneer is expected to enjoy an above-normal growth rate of 40% for 5 years. Thereafter, the growth rate will fall and stabilize at 12%. Equity investors require a return of 15% from Pioneer's stock. What is the intrinsic value of the equity share of Pioneer? **(07 Marks)**

5 Prepare a Du-pont equation from the following information:
Net Profit = 190 Average equity = 538
Total revenues = 1100 Average total assets = 958. **(07 Marks)**

6 Consider two stocks P and Q

	Stock P	Stock Q
Expected return	16%	12%
Standard deviation	15%	8%
Coefficient of correlation	0.60	

(a) What is the covariance between stocks P and Q?
(b) What is the expected return and risk of a portfolio in which P and Q have weights of 0.6 and 0.4. **(07 Marks)**

7 Explain the pros and cons of investing in a mutual fund. **(07 Marks)**

SECTION – C

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

1 Explain the following money market instruments:
   (i) Treasury Bills
   (ii) Commercial papers
   (iii) Certificate of Deposits
   (iv) Repo
   (v) CBLO
   (10 Marks)

2 Explain briefly the Bombay stock exchange sensitive index (sensex) and the S&P CNX Nifty Index (Nifty). **(10 Marks)**

3 A portfolio consists of 3 securities 1, 2 and 3. The properties of these securities are: $w_1 = 0.3$, $w_2 = 0.5$ and $w_3 = 0.2$. The standard deviation of returns on these securities (in percentage terms) are: $\sigma_1 = 6$, $\sigma_2 = 9$ and $\sigma_3 = 10$. The correlation coefficients among security returns are $\rho_{12} = 0.4$, $\rho_{13} = 0.6$, $\rho_{23} = 0.7$. What is the standard deviation of portfolio return? **(10 Marks)**

4 The following information is available on a bond :
   Face value : ₹ 100   Coupon rate : 12% payable annually
   Years to maturity : 6   Current market price : ₹ 110.
   (i) What is the duration of the bond?
   (ii) What will be the change in the price of the bond, if the interest rate changes by 1%.
   (10 Marks)

5 Explain the key macro-economic variables and their impact on stock market? **(10 Marks)**

6 The following table gives an analyst's expected return on two stocks for particular market returns:

Market Return	Aggressive Stock	Defensive Stock
6%	2%	8%
20	30	16

a) What are the betas of the two stocks?
b) What is the expected return on each stock; if the market return is equally likely to be 6% or 20%?
c) If the risk-free rate is 7% and the market return is equally likely to be 6% or 20%. What is the SML?
d) What are the alphas of the two stocks? **(10 Marks)**

7 Consider the following information for the three mutual funds, A, B and C, and the market.

	Mean return (%)	Standard deviation (%)	Beta
A	12	18	1.1
B	10	15	0.9
C	13	20	1.2
Market Index	11	17	1.0

The mean risk-free rate was 6%. Calculate the Treynor measure, Sharpe measure and Jensen measure for the three mutual funds and the market index. **(10 Marks)**

SECTION – D
(Compulsory)

8 Arul got the following information regarding his favourite stocks. He wants to invest in all four stocks equally.

Stock	α	β	σ^2_{ei}
1	1.27	1.50	50
2	1.02	1.05	40
3	2.48	1.37	20
4	0.47	0.86	35

The market variance is 25. The markets' expected return is 20%.

(a) What would be Arul's portfolio return and risk?

(b) Can you advise him regarding the amount to be allocated on each security so as to enhance his earnings? **(20 Marks)**

* * * * *