



**III Semester M.B.A. (Day) Examination, January 2009**

**(2007-08 Scheme)**

**MANAGEMENT**

**F-1 : Investment Analysis and Management**

Time : 3 Hours

Max. Marks : 75

**SECTION – A**

1. Answer **any six** of the following questions. **Each** question carries **two** marks.  
(6×2=12)
- a) Distinguish between investment and speculation.
  - b) What is 'book building' ?
  - c) What is a stock index ?
  - d) List the various types of risks.
  - e) What is Efficient Market Hypothesis ?
  - f) What is index future ?
  - g) List the various theories which suggest undervaluation or overvaluation of shares.
  - h) Differentiate between Options and Futures.

**SECTION – B**

- Answer **any three** of the following questions. **Each** question carries **eight** marks.  
(3×8=24)
- 2. What are the various investment objectives ? What are the constraints in achieving the investment objectives ?
  - 3. Explain the major methods of evaluating the performance of a portfolio.

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4. What are the assumptions of CAPM model ? Distinguish between CML and SML.
5. Jaya Ltd., has a 14 percent debenture with a face value of Rs. 100 that matures at par in 15 years. The debenture is callable in five years at Rs. 114. It currently sells for Rs. 105. Calculate each of the following for this debenture :
- Current yield
  - Yield to maturity.
6. Two securities A and B have the following risk, return and correlation
- $$R_A = 22, R_B = 20, \sigma_A = 10, \sigma_B = 12, \text{ and } \sigma_{AB} = 0.5$$
- Determine the minimum risk portfolio for A and B.

#### SECTION – C

Answer **any two** of the following questions. **Each** question carries **twelve** marks.

(2×12=24)

7. What is meant by Fundamental Analysis ? How does fundamental analysis differ from technical analysis ?
8. a) The equity stock of Rax Limited is currently selling for Rs. 30 per share. The dividend expected next year is Rs. 2.00. The investor's required rate of return on this stock is 15 percent. If the constant growth model applies to Rax Limited. What is the expected growth rate ?
- b) The current dividend on an equity share of Vertigo Limited is Rs. 2.00. Vertigo is expected to enjoy an above-normal growth rate of 20 percent for a period of 6 years. Thereafter the growth rate will fall and stabilize at 10 percent. Equity investors require a return of 15 percent. What is the intrinsic value of the equity share of Vertigo ?



9. Consider the return on Security A and the market portfolio for 15 time periods :

Time period	Return on Security A (%)	Return on Market Portfolio (%)
1	10	12
2	15	14
3	18	13
4	14	10
5	16	9
6	16	13
7	18	14
8	4	7
9	-9	1
10	14	12
11	15	-11
12	14	16
13	6	8
14	7	7
15	-8	10

- a) Compute the Beta for Security A.
- b) Calculate the characteristic line for Stock A.



## SECTION - D

**Compulsory question.** The question carries **fifteen** marks.

(1×15=15)

10. A financial analyst is analysing two investment alternatives of Z and Y. The estimated rates of return and their chances of occurrence for the next year are given in the table. below :

Probability of Occurrence	Rates of Return	
	Y <sub>1</sub>	Z
0.20	22%	5%
0.60	14%	15%
0.20	- 4%	25%

- Determine each alternative's expected rate of return, variance and standard deviation.
  - Is Y comparatively riskless ?
  - If the financial analyst wishes to invest half in Z and another half in Y. Calculate portfolio Return and Risk would the risk be reduced by this combination. Explain the reasons for it. What should be the ideal proportion in the securities Y and Z to reduce the risk to its minimum level.
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