PG – 135

III Semester M.B.A. (Day) Degree Examination, January 2012
(Scheme : 2007-08)
MANAGEMENT
F-1 : Investment Analysis and Management

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** of the following. **Each** question carries **two** marks. (2×6=12)
   a) What is systematic risk ?
   b) Define investment.
   c) What is Efficient Market Hypothesis ?
   d) What are utility curves ?
   e) Define diversification.
   f) Distinguish between Options and Futures.
   g) How many inputs are needed for a portfolio analysis involving 40 securities for Sharpe model ?
   h) What is Arbitrage portfolio ?

SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks. (3×8=24)

2. Explain Dow theory and how it is used to determine the direction of stock market.
3. Distinguish between security market line and capital market line.
4. Define investment and explain portfolio investment process.
5. An investor is considering the purchase of a five year Rs. 1,000 par value bond, bearing a nominal rate of interest of 7% per annum. The investor's required rate of return is 8 percent. What should he be willing to pay now to purchase the bond if it matures at par ?

P.T.O.

6. P. M. Kumar holds a two Stock portfolio. Stock ABC has a standard deviation of returns of 0.6 and Stock XYZ has a standard deviation of 0.4. The correlation of the two stock's return is 0.25. Kumar holds equal amount of each stock. Compute the portfolio standard deviation of the two stock portfolio.

SECTION – C

Answer **any two** questions. **Each** question carries **twelve** marks. **(12x2=24)**

7. How fundamental analysis is helpful in determining intrinsic value of stock ? Explain its process.

8. A company is currently paying a dividend of Rs. 2 per share. The dividend is expected to grow at a 15 percent annual rate for three years, then at 10% rate for the next three years, after which it is expected to grow at 5 percent, rate forever.

   a) What is the present value of the share if the capitalisation rate is 9% ?

   b) If the share is held for three years, what shall be its present value ?

9. Star Computer System Limited has forecasted returns on its share with the following probability distribution :

Return %	Probability
– 20	0.05
– 10	0.05
– 5	0.10
5	0.10
10	0.15
18	0.25
20	0.25
30	0.05

   Calculate the expected return, variance and standard deviation of returns for Star Computer System.

SECTION – D

Compulsory. **(1×15=15)**

10. Calculate the optimum portfolio in choosing among the following securities and assuming the risk free return is 8% and $\sigma^2M = 12\%$.

Security	Expected return	Beta	Unsystematic risk
A	20	1.0	40
B	18	2.5	35
C	12	1.5	30
D	16	1.0	35
E	14	0.8	25
F	10	1.2	15
G	17	1.6	30
H	15	2.0	35