



PG – 814

III Semester M.B.A. (Day) Examination, Feb./Mar. 2014
(2007-08 Scheme)

MANAGEMENT

F – 1 : Investment Analysis and Management

Time : 3 Hours

Max. Marks : 75

SECTION – A

Answer **any six** of the following. Each sub-question carries **2** marks. (6×2=12)

1. a) Define derivatives.
- b) What is security market line ?
- c) What is book building ?
- d) Distinguish between an investor and a speculator.
- e) What is arbitrage ?
- f) What is credit rating ?
- g) What is Beta Coefficient ?
- h) What is Alpha ?

SECTION – B

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

2. What is efficient market hypothesis ? Explain the various forms of efficient markets.
3. Calculate the expected rate of return, variance and standard deviation of the Stock X and Stock Y.

	Bear Market	Normal Market	Bull Market
Probability	0.2	0.5	0.3
Stock X	-20%	18%	50%
Stock Y	-15%	20%	10%

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4. The current dividend on an equity share of Lumia Ltd. is Rs. 2/-. Lumia is expected to enjoy an above normal growth rate of 20% for a period of 6 years. Thereafter the growth rate will fall and stabilize at 10%. Equity investors require a return of 15%. What is the intrinsic value of the equity share of Lumia ?
5. Explain any two Technical Indicators used in Technical analysis.
6. The following data apply to Corporations Dew and Raindrop :

	ER	σ
Dew	25%	20%
Raindrop	35%	30%

Find out the minimum risk portfolio comprising Dew and Raindrop.

SECTION - C

Answer **any two** questions. Each question carries 12 marks.

(2×12=24)

7. The following three portfolios exhibit the characteristics given below

Portfolio	Average annual return	Standard deviation	Correlation coefficient with the market
A	18	27	0.8
B	14	18	0.6
C	15	8	0.9
Market	13	12	1
T-Bill	9		

- Rank the above portfolio using Sharpe's, Treynor's and Jensen's indices.
 - Which of the portfolio has performed well ?
 - If an investor approaches you to know the ability of the fund manager to select the undervalued stocks, which one would suggest and why ?
8. Explain CAPM theory and its validity in the stock market.



9. A portfolio manager has the following information about several stocks. Build an optimum portfolio using Sharpe's model.

Security	Expected Return	β	σ_{ie}^2
A	22	1.0	35
B	20	2.5	30
C	14	1.5	25
D	18	1.0	80
E	16	0.8	20
F	12	1.2	10
G	19	1.6	25
H	17	2.0	30

The market index variance is 12% and the risk-free rate of return is 7%.

SECTION - D

(Compulsory)

(15×1=15)

10. An investor has the following information from the capital market regarding his favourite stocks X, Y and Z (All figures in percent).

Market condition	Probability	Returns (in %)		
		X	Y	Z
Boom	0.25	22	25	10
Normal	0.50	18	20	15
Bearish	0.25	12	10	20

He wants to determine his return if equal amounts are invested in the three stocks. At the same time, he wants to reduce his risk. If he can choose only two stocks, which combination should he choose? Assuming an equal amount of money is invested, what is his portfolio risk?
