Total No. of printed pages = 4

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Roll No. of candidate | | | | | | | | | |

13731 2021

M.B.A. 3rd Semester End-Term Examination

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

(New Regulation and New Syllabus)

(w.e.f. 2017-2018)

Full Marks – 70 Time – Three hours

The figures in the margin indicate full marks for the questions.

Answer question No. 1 and any *four* from the rest.

1. Choose the correct answer : (10 × 1 = 10)

(i) Which of the following is not a money market security? (1)

(a) Treasury Bill (b) National Saving Certificates

(c) Certificate of deposit (d) Commercial paper

(ii) Suppose a preferred stock's annual dividend is of Rs. 2 and the required rate of 1 return is 10 per cent, what is its worth today? (1)

(a) Rs. 20 (b) Rs. 25

(c) Rs. 30 (d) Rs. 15

(iii) A well diversified portfolio reduces (1)

(a) Interest rate risk (b) Market risk

(c) Unique risk (d) Inflation risk

(iv) The buying and selling activities of the arbitrageur (1)

(a) increases the profit (b) brings equilibrium level

(c) creates disequilibrium (d) reduces the profit margin

(v) An investor is having a portfolio with the combination of stocks and bonds in the ratio of 25:75. He is (1)

(a) Risk averse (b) Risk taker

(c) Risk neutral (d) All of the above

(vi) The rolling settlement period introduced in the stock exchanges is (1)

(a) $T+5$ (b) $T+3$

(c) $T+2$ (d) $T+1$

(vii) The statistical tool used to measure a company's risk is (1)

(a) mean (b) mode

(c) variance (d) co-variance

(viii) The stock above the security market line (SML) is (1)

(a) overpriced (b) underpriced

(c) appropriately priced (d) of high risk

(ix) If markets are efficient, the security price provides (1)

(a) inadequate return for taking up risk

(b) normal return for the level of risk taken

(c) high return for the level of risk taken

(d) none of the above

(x) The market return is 20% and the risk less rate of return is 7%. The funds beta is 1.2. What is its expected return? (1)

(a) 2.5 (b) 22.6

(c) 31.0 (d) 10.0

2. (a) Define investment. Does investment differ from speculation? Explain. (2+5=7)

(b) Compare the following investments in terms of return, risk, marketability tax shelter and convenience (8)

(i) equity shares

(ii) bank deposits

(iii) provident funds and

(iv) gold

3. (a) Briefly discuss the functions of financial markets. (5)

(b) 'Systematic risk cannot be avoided; however non-systematic risk can be avoided'. Explain. (5)

(c) The returns on stocks - A and B are given below (2+3=5)

Probability	Security A	Security B
0.5	4	0
0.4	2	3
0.1	0	3

Choice the stock of your preference based on return and risk.

4. (a) 'Stocks are risky but bonds are not'. This statement is partially true, Do you agree? Explain. (3)

(b) What is duration and how is it calculated? (5)

(c) Mr. Dutta's bond portfolio manager advises him to buy a 10 year, Rs. 10000 thee value bond that gives 8 per cent annual coupon payments, The appropriate discount rate is 9 per cent, The bond is currently selling at Rs.9,700. Should Mr. Dutta listen to the manager's advice? (7)

5. Mr. JJ is thinking of constructing a portfolio of 2 or 3 securities. The market forecast says that it would be 13.5 per cent for the next two years with the market variance of 10 per cent. The risk less rate of return is 5 per cent. The following securities are under review (15)

Company	α	β	
Axis Co. Ltd.	3.72	0.99	9.35
Apex Info Corp.	0.60	1.27	5.92
Best Tyres Ltd.	0.41	0.96	9.79
Vigil Caps Ltd	–0.22	1.21	5.39
Beauty Cosmetics Ltd.	0.45	0.75	4.52

Help Mr. JJ. to construct an optimal portfolio.

6. (a) What are the key differences between dosed-ended and open-ended mutual find schemes? (5)

(b) Consider the following information for three mutual funds - A, B and C and the market (10)

Funds	$R_p(\%)$	$\sigma_p(\%)$	Correlation coefficient
A	12	18	1.1
B	10	15	0.9
C	13	20	1.2
Return on market	11	17	1.00

The mean risk-free was 6 per cent. Calculate the Treynor measure, Sharpe measure and Jensen measure for the three mutual funds and the market index. Aslo rank the funds as per the above measures.

7. Write short notes on (any *three*) : (3 × 5 = 15)

(a) Primary and secondary Equity Market

(b) Efficient Market Hypothesis

(c) Arbitrage Pricing Theory

(d) The Dow Theory

(e) Fundament Vs. Technical analysis

(f) Pros and cons of mutual fund investment