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BA 17230 F 2

Roll No. of candidate

2019

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

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

(New Regulation)

(w.e.f. 2017 - 18)

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. Fill up the blanks

$(10 \times 1 = 10)$

(i) Speculator is a person

(a) who evaluates the performances of the company

(b) who uses his own funds only

(c) who is willing to take high risk for high return

(d) who considers hearsays and market behaviour

(ii) Investment made on house property is a

(a) financial investment

(b) economic investment

(c) non-negotiable financial investment

(d) non-financial investment

(iii) Primary and secondary markets

(a) complement each other

(b) compete with each other

(c) function independently

(d) control each other

(iv) Markowitz approach has roots in

(a) Good portfolio management

(b) Proper entry and exit in the market

(c) Estimation of stock return

(d) Analysing the risk and return related to stocks

(v) A well diversified portfolio reduces

(a) Interest rate risk

(b) Market risk

(c) Unique risk

(d) Inflation risk

(vi) Default risk lowest in

(a) Treasury bills

(b) Government bonds

(c) ICICI Bonds

(d) IDBI Bonds

(vii) Passive management is a process of holding a well diversified portfolio for

(a) short term with buy and hold approach

(b) long term with buy and hold approach

(c) short term with buy and sell approach

(d) long term with buy and sell approach

(viii) The buying and selling activities of the arbitrageur–

(a) increases the profit

(b) brings equilibrium level

(c) creates disequilibrium

(d) reduces the profit margin

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

(a) Risk averse

(b) Risk taker

(c) Risk neutral

(d) All of the above

(x) The investors by investing in the mutual funds get –

(a) Professional management

(b) Diversification

(c) Return potential

(d) All of the above

2. (a) Define investment. What are the different investment avenues available to investors? (5)

(b) 'Risk is inherent part of the investment activity. Systematic risk cannot be avoided but non-systematic risk can be avoided.' Explain. (5)

(c) The probability distribution of the rate of return on XYZ Limited is as follows: (5)

Rate of return	Probability
10%	0.3
20%	0.5
30%	0.2

(i) What is the expected rate of return?

(ii) What is the standard deviation of the rate of return?

3. (a) How does fundamental analysis differ from technical analysis? Which analysis is preferred for long-time investors and why? (3 + 2 = 5)

(b) The return of Pioneer Ltd. at present is 21 per cent. This is assumed to continue for the next five years and after that it is assumed to have a growth rate of 10 per cent indefinitely. The dividend paid last year is 32 per cent. If the required rate of return is 20 per cent and the present price is Rs. 57, what is the estimated price according to the two-stage model? (10)

4. (a) How would you assess the present value of a bond? (3)

(b) Mr. Lal's bond portfolio manager advises him to buy a seven-year Rs.5000 face value bond that gives 8 per cent annual coupon payment. The appropriate discount rate is 9 per cent. The bond is currently selling at 4700. Should Mr. Lal adhere to the manager's advice? (5)

(c) Mr. Raj buys a bond with four years to maturity. The bond has a coupon rate of 9 per cent, face value is of Rs. 100 and is currently priced at Rs.100 in the market. (7)

(i) What is the duration of the bond?

(ii) What will be the percentage change in the price of the bond, if the interest rate rises by 1 per cent?

5. (a) How does the Sharpe Index Model differ from the Markowitz model? (3)

(b) Mr. Jayesh received Rs.10,00,000 from his pension fund. He wants to invest in the stock market. The Treasury Bill rate is 7 per cent and the market return variance is 20. The following table give the details regarding the expected return, beta and residual variance of the individual security. Help Mr. Jayesh to construct his optimum portfolio. (12)

Companies	R_i	β	σ_{ei}^2
A	20	0.75	25
B	18	1.3	16
C	16	1.3	9
D	12	0.75	16
E	10	0.6	9
F	15	1.8	36

6. (a) Discuss the passive strategies for managing a bond portfolio. (5)

(b) The details of the 3 (three) portfolios are given below – (10)

Portfolios	Average annual return	Standard Deviation	Correlation co-efficient of market and portfolio
X	18	27	0.8
Y	14	18	0.6
Z	15	8	0.9
Market	13	12	–

The risk-free rate of return is 9 per cent.

(i) Rank these portfolios by using Sharpe's and Treynor's methods.

(ii) Is there any discrepancy in ranking? If so, why?

7. Write short notes on (Any THREE) $(3 \times 5 = 15)$

(a) Investment and Speculation

(b) Primary and Secondary Equity Market

(c) Key features of the National Stock Exchange

(d) Arbitrage Pricing Theory

(e) Efficient Market Hypothesis

(f) Mutual Funds.