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CS / MBA (NEW) / SEM-3 FT & 5 PT / FM-303 / 2010-11 2010-11

SECURITY ANALYSIS & PORTFOLIO MANAGEMENT

Time Allotted: 3 Hours Full Marks: 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP - A

(Multiple Choice Type Questions)

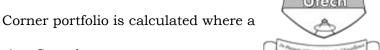
1. Choose the correct alternatives for any *ten* of the following:

 $10 \times 1 = 10$

- i) The unsystematic risk is explained by
 - a) variance of the index
 - b) unexplained variance of the index
 - c) explained variance of the index
 - d) none of these.

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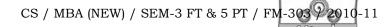


a) Security enters

ii)

- b) Security leaves
- c) Security enters or leaves
- d) Security with high extreme values enters.
- iii) Market imperfections may lead to
 - a) Lower SML
- b) Higher SML
- c) Band of SML
- d) Non-linear SML.
- iv) The stock above the security market line is
 - a) overpriced
- b) underpriced
- c) appropriately priced
- d) of high risk.
- v) In an arbitrage portfolio, the change in the proportions of different securities will add up to
 - a) zero

- b) greater than one
- c) less than one
- d) equal to one.
- vi) The growth in book value per share shows the
 - a) Rise in the share price
 - b) Increase in the physical asset of the firm
 - c) Increase in the net worth
 - d) Growth in reserves.



- vii) Government securities are free from
 - a) Purchasing power risk b) Default risk
 - c) Reinvestment risk d) Interest rate risk.
- viii) Which of the following is not correct?
 - a) Elliot Wave Theory says that the stock market follows a repetitive rhythm of a five-wave advance followed by three-wave decline
 - b) Wave 1, 3 and 5 are corrective waves as they move against the uptrend
 - c) Waves A, B and C are known as corrective waves
 - d) Each wave sub-divides into waves of one lesser degree.
- ix) The beta of a stock is 1·12 and its covariance with the market is 220. The standard deviation of market returns is
 - a) 16%

b) 14%

c) 12%

- d) 11%.
- x) Which of the following is true when bond prices increase?
 - a) Yields to maturity can increase or decrease or remain constant
 - b) Yields to maturity increase
 - c) Yields to maturity decrease
 - d) Yields to maturity remain constant.



- xi) If the slope of the Security Market Line is zero, which of the following is / are true?
 - a) Risk-free return = Market return
 - b) Market return = Expected return
 - c) Expected return = Risk-free return
 - d) all of these.
- xii) Which of the following statements is false?
 - a) The required rate of return determines the premium or discount on the bond value
 - b) If the YTM increases the bond's market price increases
 - c) The coupon rate affects the YTM
 - d) If the market price and face value are equal then coupon rate is equal to YTM.

GROUP - B

(Short Answer Type Questions)

Answer any *three* of the following.

- $3 \times 5 = 15$
- 2. What do you understand by systematic and unsystematic risks?
- 3. What is the difference between 'Security Market Line' and 'Capital Market Line'?

4

16032

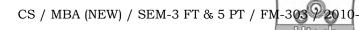
- 4. Explain Efficient Frontier Curve.
- 5. What are the steps involved in portfolio management?
- 6. Explain in brief Arbitrage Pricing Theory.

GROUP - C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

- 7. a) Anil has bought the Everest Company stock that has paid Rs. 3 as dividend per share during the last financial year. He anticipates two situations either a 5% decline in the dividend or 5% growth in the dividend in the next year. His anticipated return is 20%. Fix the price for both the situations.
 - b) The Grace & Co. has common shares outstanding in the market with price earnings ratio of 15. The annual expected growth in earnings, dividends and price is 7%. The earnings per share is Rs. 2·5, the dividend payout is 60% and the investor wants to hold the stock for 4 years. The required rate of return is 15%. What would be the present value?
- 8. a) What do you mean by 'Optimum Portfolio'?
 - b) Describe Markowitz Portfolio Theory for selection of an optimum portfolio. Give some examples in the context of Indian capital market.
 3 + 12



9. Consider the following securities:

Security	Return	Standard Deviation of return (%)
A	15	14
B	12	12
C	17	16

 $r_{AB} = 0.11$ $r_{BC} = (-)0.11$

 $r_{AC} = 0 \cdot 2\overline{1}$

Find out the portfolio return and standard deviation for the following portfolios:

i) A: 50%, B: 25%, C: 25%

ii) A: 25%, B: 50%, C: 25%

iii) A: 25%, B: 25%, C: 50%

Which one has the best risk-return combination? Why do you say so? 12 + 3

- 10. a) Mr. P is considering the purchase of bond currently selling at Rs. 878.50. The bond has 4 years to maturity, face value of Rs. 1,000 and 8% coupon rate. The next annual interest payment is due after one year from today. The required rate of return is 10%.
 - i) Calculate the intrinsic value (present value) of the bond. Should Mr. *P* buy the bond?
 - ii) Calculate the yield to maturity of the bond.



b) Following table provides information regarding to portfolio return risk:

Portfolio	Expected return Standard deviati		
1	10	4	
2	12	7	
3	13	5	
4	16	12	
5	20	14	

The Treasury bill rate is 5%. Which portfolio is the best ? 10 + 5

11. Following is the data regarding six securities:

Securities	U	V	W	X	Y	Z
Return (%)	10	10	15	5	11	10
Risk (%) Standard deviation	5	6	13	5	6	8

- i) Which of the securities will be selected?
- ii Assuming perfect correlation, analyse whether it is preferable to invest 80% in security U and 20% in security W or to invest 100% in Y. 9 + 6
- 12. Write short notes on any *three* of the following: 3×5
 - a) EVA
 - b) Portfolio Investment Process
 - c) Technical Analysis
 - d) Bond Portfolio Management
 - e) Risk and Return.
