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Sr. No. of Question Paper : 1152

Roll No.....

Unique Paper Code : 248504

Name of the Course : B.A. (Hons) Business Economics, 2014

Name of the Paper : Investment Management

Semester : V

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. -Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt any five question. All questions carry equal marks.
3. Use of non-scientific calculator and Annuity Tables is allowed. If any assumptions are made while attempting a problem, the same must be stated clearly.

1. (a) Discuss the expectations theory of interest rates.
(b) To Price a Bond , the usual discount rate is the Yield to Maturity (YTM), however for pricing a bond we may use an alternate discount rate(s). Explain the above statement with the help of your own example.
(c) A zero coupon corporate bond of F.V Rs. 100 matures after one year. The bond currently trades at Rs.88. The yield on a similar Government Bond is 11%. If the corporate bond defaults then there is a swap agreement to protect the buyer with only 50 % payment. Determine the probability that the bond shall default and what conclusions can be drawn. (5,5,5)

P.T.O.

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2. (a) How does Gordon Growth Model score over the Dividend Discounting Approach to Stock Valuation?
- (b) A Company has just paid dividend of Rs 3 per share and is expected to grow at a rate of 40 % for five years and thereafter the growth rate is expected to stabilize at 12 % per annum for ever. Find out the Present price (Intrinsic Value) of the share given that the minimum required rate of return of the equity investors is 15 %.
- (c) A Co. has an EPS of Rs 3 per share , expected Dividend Pay- out ratio is 75%, ROE 14 % & Equity Capitalization Rate of 11 % , find out the growth rate, share value and PE Ratio . If the retention is 40 % .What would be the expected dividend , growth rate , share value and PE ratio? (5,5,5)
3. (a) Following information is available for two stock A & B :

Stock	Return (%)	Beta	Standard Deviation	Residual Variance
A	12	-	-	0.0525
B	18	-	-	0.0925

The return on the market portfolio is 15 % and risk free rate is 10 %, Standard Deviation of the market return is 10 %, find out the missing information.

- (b) Calculate Portfolio return and standard deviation (in %) assuming two stocks A & B are mixed in equal proportions . The coefficient of correlation between the two stocks is + 0.4 The following information is provided :

Stock	Expected Return	Standard Deviation
A	10 %	14 %
B	12 %	23 %

How should the weights be changed to minimise the risk of the portfolio. Verify the result.

- (c) Analyse the impact of risk free borrowing and lending on the efficient frontier. (6,5,4)

4. (a) What do you understand by diversification of assets? Is it different from asset allocation ?

- (b) Following information is available about three different schemes of mutual funds

Fund	Return	Std Deviation	Beta
A	15 %	16 %	1.15
B	13%	18 %	1.25
C	12 %	11 %	0.9

Risk free rate is 7 %, rank these funds from best to worst on the basis of their performance using Sharpe and Treynor Ratio.

- (c) What do you understand by tracking error ? (5,6,4)

5. (a) The following strategies are available for an investor

- (i) Buying a Call, Selling a Put and Selling a Share
(ii) Selling a Call, Buying a Put and buying a share

The quotes are available for a three month option for the above strategies. The share is currently traded at Rs 31, Strike price is Rs 30 for put as well as call. Premium for call is Rs 3 & for Put Option Rs 2 per share. Determine the profit or loss under the two strategies if the risk free rate is 10 %. Also draw the pay off profiles under the two strategies.

P.T.O.

- (b) How does the future price in commodities help different sections of the society? (10,5)

6. Differentiate between any **three** of the following :

- (a) Diversifiable vs Non Diversifiable risk
- (b) Tactical Asset Allocation vs. Portfolio Rebalancing
- (c) CML & SML
- (d) M^2 and Information Ratio
- (e) Duration vs Modified Duration (5×3=15)