

(This Question Paper contains 3 printed pages)

Roll No.....

Sr. No. of Question Paper : 2530
Unique Paper Code : 248504
Name of the Paper : Investment Management
Name of the Course : B.A. (Hons) Business Economics, 2013
Semester : V
Duration : 3 hours
Maximum Marks : 75

Write your Roll No. on the top immediately on receipt of this question paper.

Attempt any five questions. All questions carry equal marks.

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.

Q.1) a) A Company intending to raise funds through issue of Bonds failed to receive a good credit rating. The finance manager of the Company is still confident that it would be able to float its issue. What steps should the Company take so as to make a successful issue of bonds?

b) A Company has issued a bond (F.V. Rs. 100) bearing 10% interest and maturity of 7 years at par. Required rate of return of the bond investors is 12%. Find out market price, duration and modified duration of the bond. How would these change if the maturity period increases to 15 years?

c) A 30 years 8% Coupon bond is selling at Rs. 1000 [YTM] = 7%. The modified duration of the bond is 11.26, bond convexity being 212.4. You are required to calculate the change in price of bond if it is given that yield rises from 7% to 10%. Show the solution:

(i) Without convexity (ii) After incorporating convexity. (4,5,6)

Q2) a) Comment on the following statements:

- 1) Technical Analysis is historical in nature.
- 2) Share price can also be taken as the capitalized value of earning plus present value of growth opportunities.
- 3) EIC is a top-down approach.

b) Current EPS of a Co. Rs. 40 is expected to increase @ 10% p.a. The PE ratio applicable to the Co. is 7. Find out the expected market price of the share after 4 years

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from today. The Co. has just paid a dividend of Rs. 25 which is expected to increase at the same rate as earning. What is the intrinsic value of the share today if required rate of return of investors is 16%? (3x3, 6)

Q.3 (a.) Following information is available in respect of market portfolio:

Expected Return $R_m = 18\%$

Risk free rate $I_{RF} = 6\%$

Standard derivation $\sigma_m = 30\%$

Find out the slope of the market line (CML). Find out the required rate of return of following mutual funds whose standard deviations are also given MF I $\sigma = 13\%$; MF II $\sigma = 16\%$; MF III $\sigma = 15\%$.

b) Mr X has constructed an equally weighted portfolio from the following two securities whose correlation coefficient is 0.4:

	Security I	II
Expected Return	12%	14%
Standard Deviation	17%	25%

Find out the expected return and standard deviation of the portfolio. How should he change the weights of I and II to minimize the risk of the portfolio? Verify the results.

c) Sharpe's Single Index model simplifies the Harry Markowitz Mean Variance Model. Explain. (5,5,5)

Q.4) a) The following information is available for the Portfolio A and also for Market M:

	A	M
Expected Return	8.4 %	8 %
Standard Deviation	3.2 %	4 %
Beta	0.8	
Risk Free Rate of Return (p.a.)	6 %	
Std. Dev. of Unsystematic Risk	1.9 %	

Calculate Sharpe, Treynor, Jensen and Information Ratios for the portfolio. Is the portfolio a good investment?

b) A BBE student while reading the text on mutual funds performance came to the conclusion that the core issue in measuring the performance of a mutual fund manager is simply knowing whether or not the manager has '*Beaten the Benchmark*'. Do you agree with the conclusion drawn by the student. If yes, then why, if no, then why not? (8,7)

Q.5. (a) Equity shares of A Ltd are being currently sold for Rs. 90 per share. Both the call option and the put option for a 3 month period are available for a strike price of Rs. 97 at a premium of Rs. 3 per share and Rs. 2 per share respectively. An investor wants to create a straddle position in this share. Find out the net payoff at the expiration of this option period, if the share price on that day happens to be Rs. 90 or Rs. 105.

b) Write a short note on Commodity Derivatives.

c) For Y Co Ltd compute price of a share of a company if it has recently paid a dividend of Rs. 2 per share. Y Ltd's current rate of growth is 10% p.a. which it expects to sustain in near future. The expected return on this stock is 12% p.a.

(7,3,5)

Q6. Write explanatory notes on any *three* of the following :-

1. Derivation of Duration of Bond from Bond Pricing Formula
2. Risk of Default in case of Corporate Bonds
3. Role of 'Unsystematic Risk' in Diversification of Stocks
4. Put Call Parity
5. Interest Rate Swaps.

(3x5=15)