REV-00
MBA/11/14

2015/12

MASTER OF BUSINESS ADMINISTRATION
Third Semester
SECURITY ANALYSIS & PORTFOLIO MANAGEMENT
(MBA – 20 C)

Duration: 3Hrs. **Full Marks: 70**

Part-A (Objective) =20
Part-B (Descriptive) =50

(PART-B: Descriptive)

Duration: 2 hrs. 40 mins. **Marks: 50**

Answer any *five* of the following questions:

1. What do you understand by investment? Discuss the factors to be considered before making any investment decision. (2+8=10)
2. What do you mean by risk? Discuss the various types of risk. (2+8=10)
3. Define Fundamental Analysis. What is the importance of economic variables in such analysis? Do you think that knowing the current status of economy is useful in analyzing stock market movements? If so, explain. (2+3+3+2=10)
4. Technical analysts believe that one can use past price changes to predict future price changes. How do they justify this belief? (5+5=10)
5. Investment assessment of returns on shares of X Ltd and shares of Y Ltd. is as follows: (3+3+4=10)

Scenario	Chance	Returns	
		X	Y
1	0.25	36	22
2	0.50	26	16
3	0.25	12	14

If the proportion of the total investment in shares of X Ltd is 0.6 and the proportion of investment in shares of YLtd is 0.4 then what would be the expected return on the portfolio?

6. Mr. Rajesh is a Wealth Manager working for a well known Investment banker in India. One of his client wishes to purchase 2 stocks, one related to technology (Asset T) and another banking stock (Asset B). The following is the forecast of returns on both the stocks during 4 phases of economy – High Growth, Low Growth, Stagnation and Recession.

State of nature	Probability	Return on asset T	Return on asset B
High growth	0.10	5%	0%
Low growth	0.30	10%	8%
Stagnation	0.50	15%	18%
Recession	0.10	20%	26%

a) What is the standard deviation of the return on asset T and asset B?

b) What is the covariance between the return on asset T and asset B?

c) What is the coefficient of correlation between the returns on asset T and B?

(2+2+2+2+2=10)

7. (a)Bond C has a Rs.1,000 face value and provides an 9% annual coupon for 30 years. The appropriate discount rate is 10%. What is the value of the *coupon bond*?

(b) Stock PS has an 9%, Rs.100 par value issue outstanding. The appropriate discount rate is 10%. What is the value of the preferred stock?

(c)Stock CG has an expected dividend growth rate of 10%. Each share of stock just received an annual Rs.3.24 dividend. The appropriate discount rate is 15%. What is the value of the common stock?

(3+3+4=10)

8. The following details are given for X and Y companies' stocks and the Bombay Sensex for a period of one year. Calculate the systematic and unsystematic risk the company's stocks. If equal amount of money is allocated for the stocks what would be portfolio risk?

	X Stock	Y Stock	Sensex
Average Return	0.15	0.25	0.06
Variance of Return	6.3	5.86	2.25
β	0.71	0.27	
Correlation Co-efficient	0.424		
Co-efficient of determination(r^2)	0.18		

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Duration: 20 minutes **Marks – 20**

(PART A- Objective Type)

I. Choose the correct answer: **1×10=10**

1. The Negotiable financial investment is different from the non-negotiable financial investment in terms of:
   a) Maturity period b) Interest rate
   c) Transferability d) Face value

2. Which one of the following is a money market instrument?
   a) Treasury Bills b) Equity share
   c) Debenture d) Preference Share

3. Stock Exchange:
   a) Helps in the fixation of stock prices b) Ensures safe and fair dealing
   c) Induces good performances by the company d) All the above

4. The Sensex has :
   a) 25 stocks b) 30 stocks
   c) 33 stocks d) 35 stocks

5. Default risk is lower in:
   a) Treasury bills b) Government bonds
   c) ICICI bonds d) IDBI bonds

6. Mr A purchase a stock in the market. His holding period return depends on the :
   a) Purchase price of the stock b) Selling price of the stock
   c) Dividend paid to the stock d) All the above

7. The fall in the interest rate is conducive to the stock market because:
   a) Money may flow from the bond market to stock market.
   b) Corporate can borrow at easy terms.
   c) Brokers can do business at borrowed funds.
   d) 'b' and 'c'.

8. In the stock market psychology:
   a) Investor forget the past b) History repeats itself
   c) More faith in future prediction d) 'a' and 'b'

9. An investor is having a portfolio with a combination of stock and bonds in the ratio of 75:25. He is:
   a) Risk averse b) Risk neutral
   c) A risk taker d) Active in Portfolio Management

10. The Highly liquid security is:
   a) Mutual Fund units b) Treasury bills
   c) Shares d) Commercial papers

II. State true or false: **1×10=10**

1. Equity Share is a money market instruments.
2. Nifty has 30 stocks.
3. Diversification can reduce risk.
4. Risk is the possibility that an investment's actual return will be different than expected.
5. Trading in capital market is controlled and regulated by the Reserve Bank of India
6. Expected return of a portfolio is impossible to calculate.
7. If an investor bought securities worth Rs.30000 showing the beta of 1.2. It indicates that his exposure to market volatility is 36000.
8. Market beta is always be '0'.
9. Technical analysis is a tool used by investor and analysts to predict future prices of stock and commodities.
10. Price changes occur frequently and continuously, hence they can be predicted.

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