SET A

MASTER OF COMMERCE
FOURTH SEMESTER
SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT
MCM – 405A

[USE OMR SHEET FOR OBJECTIVE PART]

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

Objective

Time: 30 mins. **Marks: 20**

Choose the correct answer from the following: ***1×20=20***

1. Investment is the......................
   a. market addition made to the nation's capital stocks
   b. Persons commitment to buy a flat or a house
   c. Employment of funds on assets to earn returns
   d. Employment of funds on goods and services that are used in production process

2. Which is the first stage in the industry life cycle?
   a. Pioneering stage
   b. Expansion stage
   c. Stagnation stage
   d. Decay stage

3. Level that the technical analyst believes that a stock price will not fall below.
   a. Support level
   b. Minimum level
   c. Resistance level
   d. Maximum level

4. The risk that exist in the market portfolio that cannot be eliminated by future diversification is
   a. Unsystematic risk
   b. Systematic risk
   c. Unique risk
   d. Default risk

5. The efficient market hypothesis assumes that investors are:
   1. rational
   2. irrational
   3. Orderly
   4. Tidy

   a. 1, 3 and 4
   b. 1 and 3
   c. 2, 3 and 4
   d. 2 and 4

6. Bonds that give the holder the right to convert them into equity at a fixed conversion price are called.............
   a. Zero coupon bond
   b. Option bond
   c. Convertible Bond
   d. Bearer Bond

7. Mr. Rupart has an irredeemable preference share of Rs. 1,000. He receives an annual dividend of Rs. 70 annually. What will be its value if the required rate of return is 10%?
   a. Rs. 600
   b. Rs. 700
   c. Rs. 800
   d. Rs. 900

8. The ....form of efficient market deals with the information regarding the past sequence of security price movements.
   a. Weak
   b. Semi-weak
   c. Strong
   d. Semi-strong

9. The Arbitrage Pricing Theory is an equilibrium model developed by:
   a. Stephen Ross
   b. William Sharpe
   c. Harry Markowitz
   d. William Robinson

10. Examining and identifying individual securities within a broad categories of financial assets is known as ....
   a. Security analysis
   b. Security selection
   c. Asset allocation
   d. Fundamental analysis

11. CAPM states that expected return on an asset is related to its systematic risk and it is denoted by.............
   a. α (constant term)
   b. ϵ (error item)
   c. β (Beta co-efficient)
   d. r (return)

12. .... is the statistical measure that indicates the interactive risk of a security relative to others in a portfolio of securities.
   a. Mean
   b. Regression
   c. Moving average
   d. Covariance

13. Which of the following is the final phase of portfolio management?
   a. Security Analysis
   b. Security Revision
   c. Security Evaluation
   d. Security Execution

14. ....involves changing the existing mix of securities.
   a. Portfolio construction
   b. Portfolio selection
   c. Portfolio evaluation
   d. Portfolio revision

15. ....is the ratio of the reward or risk premium to the volatility of return as measured by the portfolio beta.
   a. Treynor Ratio
   b. Sharpe Ratio
   c. Jensen Ratio
   d. None of the above

16. .... Portfolio management replicates a specific benchmark or index in order to match its performance.
   a. Active
   b. Passive
   c. Semi-active
   d. Semi-passive

17. Forward contracts are risky because they........................
   a. are subject to lack of liquidity
   b. are subject to default risk.
   c. Hedge a portfolio.
   d. Both (a) and (b) are true.

18. Futures markets have grown rapidly because futures
   a. are standardized
   b. have lower default risk
   c. are liquid
   d. All of the above

19. The amount paid for an option is the
   a. Strike price
   b. Premium
   c. Discount
   d. Commission

20. A put option gives the owner
   a. The right to sell the underlying security.
   b. The obligation to sell the underlying security.
   c. The right to buy the underlying security.
   d. The obligation to buy the underlying security.

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Descriptive

Time : 2 Hr. 30 Mins. **Marks : 50**

[Answer question no.1 & any four (4) from the rest]

1. Discuss the factors that affect investment environment. 10

2. What is industry analysis? Describe the various characteristics of an industry that an analyst must consider while doing industry analysis. 2+8=10

3. A company is proposing to issue a 5 year debenture of Rs. 1,000 redeemable in equal installments at 12% rate of interest per annum. If an investor has a minimum required rate of return of 10%. Calculate the debenture's present value for him. What should he be willing to pay now to purchase the debenture? 9+1=10

4. Explain Markowitz model of portfolio selection. Point out its two limitations. 8+2=10

5. Explain capital asset pricing model. What are its similarities to Arbitrage Pricing Theory? 6+4=10

6. What is meant by portfolio revision? What factors necessitate portfolio revision? Describe the major constraints in portfolio revision. 2+4+4=10

7. Information regarding two mutual funds and a market index are given below: 5+5=10

Fund	Return (%)	Standard Deviation (%)	Beta
Gold	7	15	0.72
Platinum	16	35	1.33
Market Index	10	24	1.00

Assuming the risk-free return as 5%, calculate the differential return for the two funds.

8. What are financial derivatives? Describe the features of futures contracts. 2+8=10

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