M. COM
Third Semester
SECURITY ANALYSIS & PORTFOLIO MANAGEMENT
(MCM – 305 A)

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 *four* from *Question no.* 2 to 8
***Question no.* 1 is compulsory.**

1. Define the term investment. Discuss the different avenues available to an investor for making investments. (10)
2. What is Random Walk Theory? What are its assumptions? (2+8=10)
3. What is economic analysis? Discuss the important forces within which the factors of investment operate. (2+8=10)
4. What is industrial analysis? Discuss the key characteristics in industrial analysis. (2+8=10)
5. (a) A company is proposing to issue a 5 year debenture of Rs. 1,000 redeemable in equal installments at 14 per cent rate of interest per annum. If an investor has a minimum required rate of return of 12 per cent, calculate the debenture's present value for him. What should he be willing to pay now to purchase the debenture? (5)

   The present value of Re.1 to be received at the end of each year, at 12% is given as below:

Year	1	2	3	4	5
p. v.	0.893	0.797	0.712	0.636	0.567

(b) Mr. X is planning to buy an equity share, hold it for 2 years and then sell it. The expected dividend at the end of year 1 is Rs. 8 and Rs. 9 at the end of year 2. The expected selling price of the share at the end of 2 year is Rs. 180. Calculate the value of the share today taking 10% discount factor. (5)

6. What do you mean by portfolio management? Discuss Markowitz theory of Portfolio analysis. (2+8=10)

7. (a) What are the basic assumptions behind the Arbitrage Pricing Theory? (5)

   (b) Write short note on portfolio construction. (5)

8. You are given the following historical performance information on the capital market and a mutual fund:

Year	Mutual fund beta	Mutual fund return (%)	Return market index (%)	Return on Govt. securities (%)
1	0.90	-3.00	-8.50	6.50
2	0.95	1.50	4.00	6.50
3	0.95	18.00	14.00	6.00
4	1.00	22.00	18.50	6.00
5	1.00	10.00	5.70	5.75
6	0.90	7.00	1.20	5.75
7	0.80	18.00	16.00	6.00
8	0.75	24.00	18.00	5.50
9	0.75	15.00	10.00	5.50
10	0.70	-2.00	8.00	6.00

Calculate the following risk adjusted return measures for the mutual fund: (5+5=10)

(a) Sharpe ratio

(b) Treynor ratio

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Duration: 20 minutes **Marks – 20**

(PART A - Objective Type)

I. Tick the correct answer: **1×20=20**

1. Investment in houses, land, building, diamond are investments in _____
   a. Primary securities b. Derived Instruments
   c. Physical assets d. Non-Marketable Financial Asset

2. In random walk, subsequent price change represents random deviations from _____
   a. Current price b. Future price
   c. Previous price d. None

3. The risk that exist in the market portfolio that cannot be eliminated by future diversification is:
   a. Unsystematic risk b. Systematic risk
   c. Total risk d. None

4. The major difference between Primary & Secondary market is that in Primary market:
   a. The corporation receives funds from the buyers of new securities.
   b. The corporation does not receive funds from the buyers of these securities.
   c. Liquidity is high.
   d. Price discovery is possible.

5. Money market deals with _____
   a. T-Bills, Commercial papers & Certificate of Deposits
   b. T-Bills, Commercial papers & Fixed deposits
   c. T-Bills, Stocks and Bonds of corporates
   d. T-Bills, Commercial papers and commodity trading

6. 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

7. The risk is the degree of _____
   a. Certainly about your expected return from an investment.
   b. Uncertainly about your expected return from an investment.
   c. Certainly about your total return from an investment.
   d. Uncertainly about your average return from an investment.

8. Securities are selected based on fundamental analysis and technical analysis. The former focuses on:
   a. Historical price of the security and the volume information.
   b. Financial data of the issuer of the security.
   c. Future cash flows of the issuer and growth potential.
   d. Financial data and future cash flows.

9. The technical analysis focuses on:
   a. Market activity – timing and volume of trade of the security.
   b. Financial data of the issuer of the security.
   c. Future cash flows of the issuer and growth potential.
   d. Financial data and future cash flows.

10. Mr. A has an irredeemable preference share of Rs. 1,000. He receives an annual dividend of Rs. 80 annually. What will be its value if the required rate of return is 10%?
   a. Rs. 700 b. Rs. 800 c. Rs. 900 d. Rs. 1000

11. Which type of investor will choose investment that has lowest standard deviation for an equal rate of return?
   a. A risk seeking investor b. A risk averse investor
   c. An indifferent investor d. A financial illiterate

12. The expected return on a portfolio is:
   a. Arithmetic average of the return of the securities includes in the portfolio.
   b. Geometric mean of the return of the securities includes in the portfolio.
   c. Weighted return of the security held in the portfolio.
   d. Weighted risk of the security held in the portfolio.

13. 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

14. According to Markowitz, the trade-off facing the investor is:
   a. Standard deviation and variance
   b. Standard deviation and expected return
   c. Variance and expected return
   d. Covariance and expected return

15. Sharpe's single index model is based on single factor assumption. This factor is:
   a. Covariance b. Correlation coefficient
   c. Standard deviation d. Market index

16. In portfolio evaluation process, the security's performance is evaluated to determine:
   a. The returns earned during a particular period by the security.
   b. The risk involved by holding a particular security.
   c. The risk-return characteristic of the security.
   d. The overall industry performance.

17. _____ is a process by which investment portfolios are tried to match the performance of an index.
    a. Active portfolio management b. Passive portfolio management
    c. Security revision d. Benchmark index

18. CAPM evaluates the pricing of:
    a. All assets b. Risk free asset
    c. Risky asset d. Government securities

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

20. In active management process, undervalued stocks are selected to _____.
    a. Sell b. Buy
    c. Hold d. Investigate

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