Seat No. : _______________

# AB-105

**April-2019**

## M.Com., Sem.-II

## CC-9 : Investment Management

**Time : 2:30 Hours]** **[Max. Marks : 70**

1. (a) What is Portfolio Management ? Describe in detail the Portfolio Management Process. **7**

   (b) Describe the role of Stock Exchange in Financial Markets. **7**

**OR**

   (a) Explain the difference between Direct Mode and Indirect Mode of Investment with reference to the risk and return components associated with them.

   (b) What is a Mutual Fund ? Describe various types of Mutual Funds with reference to their risk-return characteristics.

   (c) Attempt any **two** : **4**

      (1) Explain the difference between Investment and Gambling.

      (2) Describe briefly the Portfolio Management Process.

      (3) Distinguish between Forwards and Futures.

      (4) Explain the Role of SEBI as a regulatory body.

2. (a) What is EMH ? Describe the different forms of EMH and their implications to the investors. **7**

   (b) What is an Economic Indicator ? Give the classification of economic indicators with reference to stages of the business cycle and timing of changes in relation to the changes in the economy. **7**

**OR**

   (a) What is Technical Analysis ? Describe any five tools of Technical Analysis.

   (b) Explain in detail the tools of Industry Analysis

   (c) Attempt any **one** : **4**

      (1) A ₹ 100 par value bond bearing a coupon rate of 12 percent will mature after 5 years. What is the value of the bond if the discount rate is 15 percent ?

      (2) The equity stock of Rax Limited is currently selling for ₹ 30 per share. The dividend expected next year is ₹ 2.00. The investor's required rate of return on this stock is 15 percent. If the constant growth model applies to Rax Limited, what is the expected growth rate ?

3. As a Management trainee of a financial institution, you have to analyze the share prices of two companies along with the NSE index. **14**

| Company A Stock Prices | Company B Stock Prices | NSE |
|---|---|---|
| 24.00 | 50.38 | 857.07 |
| 25.00 | 48.88 | 862.46 |
| 23.63 | 47.75 | 858.89 |
| 23.63 | 48.88 | 861.33 |
| 25.00 | 51.38 | 853.78 |
| 26.75 | 48.50 | 872.02 |
| 27.25 | 55.38 | 859.68 |
| 26.00 | 54.28 | 871.91 |
| 26.70 | 55.28 | 878.53 |
| 27.70 | 41.38 | 807.23 |
| 25.60 | 48.30 | 877.72 |
| 24.50 | 49.50 | 893.82 |

(a) Which stock has higher average return ?

(b) What are the standard deviations of returns for stock A and stock B ?

(c) What is the co-variance between the returns of stock A and stock B ?

(d) If the investor allocates 40% of his investment outlay in stock A and 60% in stock B then what are the portfolio return and portfolio risk ?

(e) Which stock has higher systematic risk in terms of Beta ?

**OR**

(a) From the data given below, obtain the expected returns, standard deviation of returns and Correlation coefficient between the returns of Stock A and Stock B :

| i | $R_A$ | $R_B$ | $P_i$ |
|---|---|---|---|
| 1 | 0.25 | 0.45 | 0.20 |
| 2 | 0.10 | 0.05 | 0.50 |
| 3 | – 0.10 | – 0.15 | 0.30 |

(b) An equally weighted portfolio will consist of shares from AB company and YZ company stock. The expected returns and standard deviations associated with AB company stock are 5% and 12% respectively and those for YZ company stock are 10% and 20% respectively. Find the expected return and standard deviation of returns of this portfolio if returns on the two stocks are: (1) perfectly positively correlated (2) perfectly inversely correlated (3) Independent.

(c) Answer in **one** or **two** lines only : **3**

(1) Distinguish between Systematic Risk and Unsystematic Risk.

(2) What is Diversification ?

(3) Define Efficient Frontier.

4. (a) Describe Markowitz approach to portfolio construction. **7**

(b) Explain in detail CAPM model along with its assumptions and limitations. **7**

**OR**

(a) Attempt any **two** : **14**

(1) What is Arbitrage Pricing Model ? How does it differ from CAPM ?

(2) Explain in detail Sharpe's Model of Portfolio Construction.

(3) Explain the difference between Capital Market Line and Security Market Line. Also explain how securities are underpriced or overpriced using Security Market Line.

(b) Multiple Choice Questions : **3**

(1) Beta for a Market Portfolio is always ________.

(a) –1 (b) 0

(c) +1 (d) Greater than one

(2) Which type of risk is essentially eliminated by diversification ?

(a) Expected risk (b) Market risk

(c) Systematic risk (d) Unsystematic risk

(3) Which of the following technical measures has the effect of smoothing out day-to-day price fluctuations ?

(a) Moving Average Charts (b) Advance/decline lines

(c) Candlestick charts (d) Point-and-figure charts

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