

PGDIFA Sem.-2 Examination

Paper-5

Investment Management

May-2024

Time : 2-30 Hours]

[Max. Marks : 70

Q.1 Analyze the investment process, outlining each step involved from setting investment objectives to portfolio evaluation. How does this process help in achieving investment goals? **(12)**

OR

Q.1 Discuss the differences between investment, speculation, and gambling. Highlight the key characteristics that distinguish these concepts from one another **(12)**

Q.2 Discuss the primary and secondary markets in the capital market. Explain their functions, significance, and how they complement each other in the financial system. **(12)**

OR

Q.2 Describe the regulatory framework governing the financial markets in India. Discuss the roles and responsibilities of the Securities and Exchange Board of India (SEBI) in regulating these markets.

Q.3 A financial analyst is analyzing two investment options, Stock X and Stock Y. The estimated rate of return and their chances of occurrence for the next year are given below. **(12)**

Probability	Return on Stock X	Return on Stock Y
0.20	22	5
0.60	14	15
0.20	-4	25

1. Find out the expected return and risk of Stock X and Y.
2. State which stock is risky and why?

OR

Q.3 (A) Discuss the technical analysis (Charts and indicators) of the securities in detail. **(06)**

Q.3 (B) Consider two stocks in portfolio A and B.

	E (R)	S.D.
Stock A	15%	10%
Stock B	20%	30%

If the returns of the two stocks perfectly negatively correlated what is the weightage of two stocks that risk of portfolio driven down to zero? **(06)**

Q.4 Mr. X has recently completed MBA Finance and he has been hired as a financial planner by a leading financial corporation. His boss has assigned him the task of investing Rs 10,00,000 for a client who has been asked to consider only the following investment alternatives, Stock A and Stock B.

The research wing of the company has developed the probability distribution for the state of the economy and estimated value of rate of return under each state of economy. The following information is available for your research purpose: **(12)**

State of Economy	Probability	Stock A	Stock B
1	0.20	5	20
2	0.30	15	14
3	0.40	18	35
4	0.10	02	10

1. What are expected returns and standard deviations of returns for stock A and B? What is your recommendation of client in terms of variability for the two stocks? Which stock is more consistent?
2. If correlation coefficient of two stocks is 0.80 and investor wants to invest 40% in stock A and remaining in stock B, what is the expected return and risk of the portfolio of the two stocks?

OR

Q.4 (A) How do bond rating agencies determine credit ratings for bonds, and what methodologies do they employ to assess credit risk? **(06)**

Q.4 (B) An insurance company has an obligation to pay Rs. 325,784 after 9 years. The market interest rate is 9 percent, so the present value of the obligation is Rs. 150,000. The insurance company's portfolio manager wants to fund the obligation with a mix of seven-year zero coupon bonds and perpetuities paying annual coupons. How much should he invest in these two instruments? **(06)**

Q.5 Consider the following information for three mutual funds, X, Y, and Z, and the market. **(12)**

Mutual Funds	Mean Return (%)	Standard deviation (%)	Beta
X	24	22	1.8
Y	16	14	1.2
Z	12	13	0.8
Market Index	10	10	1.0

The mean risk-free rate was 7 percent. Calculate the Treynor measure, Sharpe measure, Jensen measure and M^2 for the three mutual funds and the market index.

OR

Q.5 (A) Write Active and Passive Investment strategies for Equity investments. **(06)**

Q.5 (B) The following table gives an analyst's expected return on two stocks for particular market returns. **(06)**

Market Return	Aggressive Stock	Defensive Stock
8 %	2 %	10 %
20 %	32 %	16 %

- What is the beta of the aggressive stock?
- If the risk-free rate is 6 % and the market return is equally likely to be 8 % and 20 % what is the market risk premium?
- What is the alpha of the aggressive stock?

Q.6 MCQs **(10)**

- Which of the following is a primary objective of investment?
(a) Speculation (b) Income Stability (c) Gambling (d) High Risk
- Which of the following is NOT considered a characteristic of equity shares?
(a) Voting rights (b) Fixed dividend rate (c) Permanent capital (d) Ownership in the company
- Which market is characterized by short-term and high-quality debt securities?
(a) Capital Market (b) Money Market (c) Derivative Market (d) Primary Market
- Which financial market instrument is known as a zero-coupon bond?
(a) Commercial Paper (b) Treasury Bill (c) Certificate of Deposit (d) Equity Share
- If the semi-annual yield of a plain vanilla bond is five percent, the annual percentage rate is:
(a) 10 percent (b) Slightly less than 10 percent (c) Slightly more than 10 percent (d) Compounded value of 10 percent
- The duration of which of the following is the same as its maturity?
(a) Plain vanilla bond (b) Optionally convertible bond (c) Fully convertible bond (d) Zero coupon bond
- For a bond of given maturity, lower the coupon rate, lower the duration:
(a) True (b) False
- The breadth of the market is indicated by the advance–decline Line:
(a) True (b) False
- For timing the market investors often use:
(a) Technical analysis (b) Company analysis (c) Fundamental analysis (d) Viability analysis
- The measure that is based on CAPM is the:
(a) Sharpe measure (b) Jensen measure (c) Treynor measure (d) All the above

X-X-X-X-X-X-X-X-X-X-X-X-X-X-X