Q. P. Code: 22109

(2 ½ Hours) **Total Marks: 75**

N.B : 1. All questions are **compulsory.**
2. Figures to the right indicate **full marks.**
3. Specify assumptions
4. All working notes should form a **part** of your answer.

Q1.A) Fill in the blanks with the correct alternative given below : (any eight) [**8**]

1. _____ means combined holding of many kinds of financial securities.
   a) Business management b) Portfolio management c) Fund management
2. _____ involves a higher level of risk and a more uncertain expectation of returns.
   a) Speculation b) Risk c) Range
3. Risk _____ investors would be willing to continue buying investments of higher risk by receiving the same increase in returns.
   a) seeking b) indifferent c) averse
4. _____ form of efficient market hypothesis is concerned with the possession of inside information.
   a) Strong b) Weak c) Semi - strong
5. _____ risk means the variability in the rates of return caused by the market up swings or down swings.
   a) Interest rate b) Purchasing power c) Market
6. According to _____, a portfolio is not efficient if there is another portfolio with a higher expected value of return and a lower standard derivation.
   a) Markowtiz efficient model b) Portfolio diversification c) Sharpe's model
7. _____ risk is diversifiable risk.
   a) Unsystematic b) Systematic c) Political
8. Investment in _____ is not a tax saving investment.
   a) PPF b) insurance scheme c) Share
9. _____is very important factor affecting the performance measures.
   a) Feed back b) Diversification c) Investment process
10. When correlation co-efficient greater than zero, it is _____ correlation.
    a) positive b) negative c) neutral

Q.1.b) **State whether the following statements are True or False (any Seven)** [7]

1. Risk is one of the important principle of investment.
2. Modern portfolio theory believes in the maximization of return through a combination of securities.
3. Interest rate risk is the risk of insolvency.
4. Risk averse investors are willing to make investment of increasing high risk for promise of increasing smaller increments of returns.

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5. Portfolio revision is a process of adjusting the existing portfolio in accordance with the changes in financial markets and the investor's position.
6. Market risk arises from the inability to convert an investment quickly into cash.
7. Second order of stochastic dominance model aims at reducing the risk of bad outcomes.
8. Active investment strategy incurs low costs as compared to passive investment counterparts.
9. Identifying investment priorities is the first step of investment process.
10. Factors to be considered for asset allocation are age, income, time horizon, risk appetite, etc.

(2) The rate of return on stock A and stock B under different state of economy are given below : **[15]**

State of Economy	Probability	Stock A (%)	Stock B (%)
Prosperity	0.6	40	50
Depression	0.4	30	20

- Calculate the expected return and standard deviation of return on stock A and stock B.
- What would be your decision if the probability changes to 0.50 : 0.50 ?

OR

(2) **(a)** Explain the Top Down and Bottom Up portfolio management strategies. **[8]**

(b) Explain Portfolio management and its principles in brief. **[7]**

(3) Compute the Beta factor and expected returns for T Ltd. and D Ltd. using CAPM and give your comments for selection of best alternative. The risk free rate of return is 10 %. **[15]**

Year	T Ltd. %	D Ltd. %	Market %
1	15	15	17
2	16	16	18
3	15	15	15
4	14	13	13
5	15	16	17

OR

(3) (a) Mr. Jio purchased 100 shares of Reliance Ltd. at Rs. 50 each on 1.7. 2014. He paid brokerage of Rs. 1500. The company paid the following dividends. **[8]**

Year	1	2	3
Dividend per share (Rs.)	2	2	3
Dividend amount (Rs.)	200	200	300

After holding them for three years he sold all shares at Rs. 90 each. He paid brokerage of Rs. 2000. Calculate Holding period and Annualised rate of return.

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(3) (b) The returns of two assets, under three possible states of nature, are given below: **[7]**

State of nature	Probability	Returns on Asset 1	Returns on Asset 2
1	0.35	15	12
2	0.15	20	15
3	0.50	12	20

Calculate co- variance between return of assets 1 and asset 2.

(4) The details of three portfolios are given below. Compare these portfolios on performance using Sharpe, Treynor and Jensen's measures. **[15]**

Portfolio	Average return	Beta	Standard deviation
X	11	0.67	28
Y	12	0.90	21
Z	13	1.25	25
Market Index	14	1.00	21

Risk free rate of return is 8%.

OR

(4) (a) Compare the following portfolios on performance using Sharpe, Treynor's measures and rank them. Risk free rate of return is 8%. **[8]**

Portfolio	Average return %	Standard deviation	Beta
1	15	0.30	0.80
2	16	0.40	0.90
3	20	0.30	0.75
Market Index	20	0.20	1.00

(b) Calculate Jensen measures for the following and rank them. **[7]**

Portfolio	Return on portfolio %	Beta
1	15	1.12
2	18	1.15
3	20	1.20
Market Index	22	1.00

Risk free rate of return is 8%.

(5) (a) Explain any four approaches of asset allocation. [8]

(b) Explain in detail the factors affecting the performance measure of portfolio. [7]

OR

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(5) Write a short note on : (Any Three) [15]

a. Random walk theory

b. Portfolio revision

c. Active strategy

d. Types of risk

e. Safety first model

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