

Q. P. Code: 32135

(2 ½ Hours)

Total Marks: 75

- NB: (1) **All** questions are **compulsory**.
 (2) **All** working notes should form a **part** of your answer.
 (3) Specify **assumptions**, if any, while **solving** the questions.
 (4) **Figures** to the **right** indicate **full** marks.

(1)(a) Match the following. (Any 8)**(8)**

Column A		Column B	
1	Standard deviation	A	Mutual funds
2	Strong form	B	Jensen's measure
3	Tax saving investments	C	Highly rigid
4	CAPM	D	Sharpe's measure
5	Formula plans	E	Hybrid approach
6	Core-satellite asset allocation	F	Inflation risk
7	Purchasing power risk	G	Average life
8	Duration of bond	H	Inside information
9	Economic investment	I	Reduces risk and maximize returns
10	Objective of portfolio management	J	Addition to capital stock

(1) (b) State whether following statements are True or False. (Any 7)**(7)**

- All investments are speculative in nature.
- Money- weighted return is also termed as internal rate of return.
- The risk of an issuer going bankrupt is termed as default risk.
- Higher the variance of a security, higher is its total risk.
- Inflation risk is a type of unsystematic risk.
- Modern portfolio theory is based on the assumption that market is inefficient.
- Holding period return and annualized return are always the same.
- Investment in schemes of post office such as NSS, NSC gives tax benefits.
- Difference between highest and the lowest value is termed as range.
- Index funds and exchange traded funds are good investment types for tactical asset allocation.

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- (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 (%)
Boom	0.3	20	40
Normal	0.5	30	30
Recession	0.2	40	20

Calculate the expected return and standard deviation of return on stock A and stock B.

Which stock is a better investment option? and why?

OR

- (2) (a) Define portfolio management? Explain the objectives of portfolio management. (8)
- (b) Discuss active portfolio management strategies in detail (7)
- (3) Calculate Beta in case of share of Nelco Ltd. whose returns and market portfolio returns are given below: (15)

Year	Nelco Ltd.	Market Portfolio Returns
1	20	14
2	24	19
3	10	9
4	15	14
5	(-) 10	(-) 8
6	12	10
7	18	16
8	28	30
9	33	35
10	40	42

OR

Q. P. Code: 32135**(3)(a)** Returns of two assets X and Y under four possible situations are given. **(8)**

Possibilities	Probability	Return on asset - X	Return on asset - Y
1	0.15	5%	6%
2	0.25	12%	9%
3	0.50	15%	18%
4	0.10	20%	24%

Find out covariance between Asset - X and Asset - Y.

(3)(b) Dr. Prajapati purchased 800 shares of Sundar Ltd. @Rs. 122 each on 15th June, 2008. He paid brokerage of Rs. 1200. The company paid the following dividends: **(7)**

June 2008	Rs. 1600
June 2009	Rs. 2000
June 2010	Rs. 2400

He sold all his holding for Rs. 99,000 (net) on 15th October, 2010.

- (1) What is the holding period return?
- (2) What is the annualized return?

(4) The details of three Mutual Funds are given below. **(15)**

Mutual Funds	Average return %	Standard deviation	Beta
A	24	18%	1.10
B	20	15%	0.90
C	26	20%	1.12
Market Index	22	17%	1.00

Risk free rate of return is 12%. Calculate Treynor, Sharpe and Jensen's measures.

OR

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- (4)(a) Consider the following information for three funds Ten, Zen, Pen. Calculate Treynor's and Sharpe's measures. Explain the difference. (8)

Funds	Average return	Standard deviation	Beta
Ten	40%	0.28	1.25
Zen	50%	0.21	1.00
Pen	60%	0.25	1.15

Risk free rate of return is 16%

- (4)(b) Calculate Jensen measures for the following and rank them. (7)

Portfolio	Average return	Beta
A	24%	1.30
B	30%	0.80
C	20%	1.20
Market Index	24%	1.40

Risk free rate of return is 16%

- (5)(a) Explain portfolio rebalancing. (8)

- (b) Define risk. Explain the various methods to measure risk. (7)

OR

- (5) Write a short note on (Any three) (15)

- Efficient Market Hypothesis
- Constant Rupee Value Plan
- Insured Asset Allocation
- Objectives of Investment
- Principles of Portfolio Construction.