VCD/26/10/23 SYBIM SEM III SUBJECT NAME: SAPM 2 ½ HRS 75 Marks

N.B.: (1) All questions are compulsory. (2) Figures to the right indicate marks allotted to each question.

**Q.1 (A) Choose the most suitable alternative for the following: (Any Eight) (8)**

1) An "aggressive" common stock would have a "beta" ____________
   (a) greater than one (b) equal to zero (c) less than one (d) equal to one
2) Which of the following is a financial investment?
   (a) Share (b) Farm (c) Car (d) T.V. Set
3) The beta of the risk free asset is ____________
   (a) -1.0 (b) 2.0 (c) 1.0 (d) 0
4) The fundamental analysis approach has been associated with ____________
   (a) Certainties (b) Uncertainties (c) Ratios (d) Balance sheet
5) The market portfolio has a beta of ______
   (a) -1.0 (b) 2.0 (c) 1.0 (d) 0.5
6) Which of the following is tax saving investment?
   (a) PPF (b) Shares (c) Fixed deposit (d) Post office saving
7) A price weighted index is an arithmetic mean of ____________
   (a) Future prices (b) current prices (c) quarter prices (d) none of these
8) Post office operates as a ____________
   (a) Financial Institution (b) Small office (c) Outstation office (d) Registered office
9) Bond holders usually accept interest payment each ____________
   (a) 1 year (b) six months (c) 2 months (d) 2 years
10) A bond that has no collateral is called __________
   (a) collable bond (b) a debenture (c) a junk bond (d) a mortgage

**(B) State with reasons whether the following statements are true or false: (Any 7) (7)**

1) The objective of portfolio revision is the same as the objective of portfolio selection.
2) Brokerage paid on purchase of a security will be added to its cost.
3) Portfolio revision involves changing the existing mix of securities.
4) The decomposition of total return is useful in identifying the different skills involved in active portfolio management.
5) Risk is highest in callable bonds.

6) Portfolio risk cannot be reduced with diversification.

7) Occasionally a bond is issued with a small maturity.

8) The total return on a portfolio includes only risk free return.

9) Equity risk applies to debt investments such as bonds.

10) A bond containing a put provision is said to be callable.

Q.2 (A) Explain the Phases of Portfolio Management. (8)

(B) Difference between: Speculation V/s. Gambling. (7)

OR

Q.2 (C) Compare Portfolio performance using Sharpe and Treynor measures for the following portfolio (15)

| | Average Return (%) | Standard Deviation | Beta |
|---|---|---|---|
| Portfolio X | 14% | 0.25 | 1.25 |
| Portfolio Y | 10% | 0.15 | 1.10 |
| Market Index | 12% | 0.25 | 1.20 |

The risk-free rate of return is 8%.

Q.3 (A) Explain the Markowitz Model. (8)

(B) Write short note on Portfolio Revision. (7)

OR

Q.3 (C) The rate of return on stocks of Stork Ltd. and Kite Ltd. Under different states of economy are presented below along with probability of the occurrence of each state of the economy. (15)

| Particular | Boom | Normal | Recession |
|---|---|---|---|
| Probability | 0 3 | 0.4 | 0.3 |
| Rate of return on stocks Stork Ltd (%) | 40 | 60 | 80 |
| Rate of return on stocks of Kite Ltd (%) | 90 | 60 | 40 |

Calculate the expected rate of return and standard deviation of return for both companies. Also advise investor for his decision of investment.