VCD 06/03/2020

SYIM SEM III SAPM-1 TIME 2½ MARKS 75

Q.1 a) State whether the following statements re True or false: (any 8) 8 Marks

1. Investment in different types of securities help to minimize risk.
2. Life insurance an investment for the security of life.
3. A higher standard deviation means a higher risk and therefore a higher possible return.
4. Risk tolerance is the degree of variance in returns an investor is willing to allow in a portfolio.
5. The objective of portfolio revision is the same as the objective of portfolio selection.
6. Event risk can also occur due to natural or industrial accidents or regulatory change.
7. Investment is an act of conducting a risky financial transaction, in the hope of substantial profit.
8. The single index model is the complex and the most rarely used simplification.
9. The total return on portfolio includes only risk free return.
10. A bond containing a put provision is said to be callable.

Q.1 b) Match the following (any 7) 7 Marks

Group A	Group B
1.Liquidity	A)Systematic Risk
2.Diversification	B)Easily converted into cash
3.Beta	C)Reducing the risk of loss
4.Multy index model	D) Believe in market efficiency
5.Sharpes Measure	E)More complex and requires more data estimates for its application
6.Passive revision strategy	F) Standard Deviation
7.Theorem Two	G) Long Term Bonds Have more interest Rate Risk than Short term Bonds.
8.Type E Investor	H) Capital gains from an interest rate decline exceed the Capital loss from an equivalent interest Rate increases.
9.Interest Rate risk	I) Growth
10.Theorem Five	J)Applies to debt investments

Q.2 a) Mr. Ram wants to invest in company A or Company B the return on stock of company A and B and probabilities are given below: (8 MARKS)

Company A		Company B	
Return	Probability	Return	Probability
(%)	(%)	(%)	(%)
6	0.10	4	0.1
7	0.25	6	0.2
8	0.30	8	0.4

9	0.25	10	0.2
10	0.10	12	0.1

Calculate expected return and standard deviation of both company and advise Mr. Ram , whether he should invest in company A or B

Q.2 b) from the following calculate Beta of security.(7 Marks)

Year	Return on Security (%)	Return on Market Portfolio (%)
1	10	12
2	12	11
3	15	14
4	10	12
5	08	11

OR

Q.2 c) Define Investment. Explain its characteristics? (8 Marks)

d) What is portfolio management? Explain its phases. (7 Marks)

Q.3 a) from the following information calculates co-variances of a security with market. (8 Marks)

Year	Return on Security (%)	Return on Market Portfolio (%)
1	10	12
2	12	11
3	15	14
4	10	12
5	8	11

Q.3 b) following information given in respect of three mutual fund and market. (7 Marks)

Mutual Fund	Average Return (%)	Standard Deviation (%)	Beta
P	12%	18%	1.1
Q	10%	15%	0.9
R	13%	20%	1.2
Market Index	11 %	17%	1.0

The mean risk free rate 6 % Calculate Sharpe's Measure and Treynor's Measure.

Q.4 a) Evaluate performance of following portfolio and the market using the following data and comment on the same. (8 Marks)

Portfolio	SD (%)	Beta	Return (%)
Dev Ltd.	20	1.25	35
Gandharva Ltd.	18	1.10	30
Asura Ltd.	19	1.15	32
Market	15	1.00	25

Risk Free rate of return is 8 %

Q.4 b) You are considering an investment in one of the following bonds: (7 Marks)

Name of Bond	Coupon Rate	Maturity	Price Rs. 100 Per Value
Bond P	14 %	8 Years	Rs.80
Bond Q	12 %	6 Years	Rs.50

i) Calculate YTM for each Bond.

ii) Which Bond would you recommend for invest?

OR

Q.4 c) Define Bond .Explain its Characteristics? (8 marks)

d) Why Portfolio Evaluation is needed? (7 Marks)

Q.5 a) Explain risk – return Trade off and Importance of Risk return Trade off . (8 Marks)

b) What is the difference between investor and speculator? (7 Marks)

OR

Q.5 C) Write short notes (Any 3) (15 Marks)

a) Multi Index Model.
b) Portfolio Revision Strategies.
c) Bond Pricing.
d) Markowitz Model.
e) Types of Investors