SRN – 29

M.Com. (Semester – II) Examination, April 2017
COC 204 : SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT (OA-18)
(Old)

Duration : 3 Hours

Max. Marks : 60

Instructions : *1) This paper consists of **nine** questions carrying **equal** marks.*
*2) Question No.**1** consists of **5 compulsory** questions of **2** marks **each**.*
*3) Answer **any 5** questions from question **2, 3, 4, 5, 6, 7, 8** and **9**.*
*4) **Each** question carries **10** marks. Figure to **right** indicate marks.*
*5) Present value tables will be provided on **request**.*

1. Answer the following in brief : **(5×2=10)**

a) What do you mean by Arithmetic Average Return ?

b) What is Economic Forecasting ?

c) What is Formula Plans ?

d) A corporate bond at the beginning of the year is ₹ 90. Price of the bond at the end of the year is ₹ 95.40. Interest received for the year ₹ 13.50. Compute the rate of return ?

e) Consider the following information :

	Share Moon	Share Mars
Expected Return %	15	20
Standard Deviation %	10	15
Covariance %	120	

i) What is the correlation between the two shares ?

ii) What is the expected return of a portfolio in which Moon and Mars have been combined in equal proportions ?

2. What is Economic Analysis ? State the macroeconomic factors considered for economic analysis. 10

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3. Explain Arbitrage Pricing Theory. 10

4. Explain the different types of risks which affect the return and valuation of a security. 10

5. Maya Ltd. has a 14 percent debenture with a face value of ₹ 100 that matures at par in 15 years. The debenture is callable in five years at ₹ 114. It currently sells for ₹ 105. Calculate each of the following for this debenture.
   a) Current yield
   b) Yield to call
   c) Yield to maturity. 10

6. Jaya Ltd. currently pays ₹ 3 per share as annual dividend. Assuming 10 percent required rate of return on shares. Compute the value of shares under each of the following dividend growth rate assumptions :
   a) Annual rate of growth, zero percent indefinitely.
   b) Annual constant rate of growth, 5 percent to infinity.
   c) Annual rate of growth, 5 percent for each of the next 3 years, followed by a constant annual rate of growth of 4 percent in years 4 to infinity. 10

7. A study by a mutual fund has revealed the following data in respect of three securities :

Security	Standard Deviation (%)	Correlation with Index
A	20	0.60
B	18	0.95
C	12	0.75

The standard deviation of the market portfolio has been observed as 15%.

a) What is the sensitivity of returns of each stock with respect to the market ?

b) What are the covariance among the various stocks ?

c) What would be the risk of the portfolio consisting of all stocks equally ?

d) What is Beta of the portfolio consisting of equal investment in each stock ? 10

8. From the following details, determine the securities that are overpriced and those that are underpriced in terms of the Security Market Line.

Security	Actual Return	β	σ
A	0.33	1.7	0.50
B	0.13	1.4	0.35
C	0.26	1.1	0.40
D	0.12	0.95	0.24
E	0.21	1.05	0.28
F	0.14	0.70	0.18
Nifty Index	0.13	1.00	0.20
T Bills	0.09	0.00	0.00

Also assume that a portfolio is constructed by using equal portions of six stocks and find out the expected return. **10**

9. The following are the data of five mutual funds :

Fund	Return	Standard Deviation	Beta
A	16	8	1.5
B	12	6	0.90
C	14	5	1.40
D	18	10	0.75
E	15	7	1.25

What is the Reward to Variability and Reward to Volatility ratio and the ranking if the risk-free rate is 7% ? **10**
